

## Economic and financial affairs



### Relevance of gender in the policy area

The European Union (EU) is one of the world's largest economies, accounting for more than 20% of global gross domestic product (GDP). Trading by EU Member States with countries beyond the EU represents 17% of global trade flows. The perspective of a single market for Member States is at the heart of EU economic and financial policy. All EU Member States form part of the economic and monetary union (EMU), which is an arrangement between the Member States based on a single market. The creation of a single market is the result of a historical process which started in 1957, when the founding Member States of the EU wished to create a common market. The EU coordinates economic and fiscal policies, applies a common monetary policy and promotes a common currency.

EU governments have agreed on a wide range of rules to ensure the quality and appropriateness of their economic policies. All EU Member States are committed under rules known as the stability and growth pact (SGP) to pursuing sound public finances because they are an essential pre-requisite for sustainable economic growth and financial stability. Moreover, all EU Member States present to the Commission the budgetary measures they intend to implement in order to fulfil their commitments. The EU also has rules to encourage economic stability by preventing the development of risky macroeconomic imbalances. The macroeconomic imbalance procedure (MIP) ensures that governments tackle any national economic trends that could pose a threat to other EU economies and discuss these with the Commission and other Member States. The EU's approach to fighting the economic, financial and sovereign debt crisis can be described as a combination of fiscal consolidation, financial sector stabilisation and structural reforms in labour and product markets. This approach is reflected in the priorities set by the annual growth survey and in the European Commission's country-specific policy recommendations to Member States in the framework of the European Semester, the EU's annual cycle of economic policy coordination.

Within this context, gender is considered a relevant factor to overcome economic and financial crisis, and for the recovery of the European economy. The promotion of gender equality will unleash the talents and capacities of women, which are needed to achieve the goals of sustainable growth:

'The global economy is not making use of great potential that is available. And that needs to change, not just for women's sake, but for economies' sake', according to Christine Lagarde, Managing Director of the IMF, in a keynote speech in Tokyo.

From a macroeconomic perspective, women's inclusion in the labour market is relevant in terms of fostering economic growth. Looking at the performance of countries and regions, a clear strong positive correlation emerges between gender equality in the labour market and economic growth. The direction of causality goes mainly from economic growth to gender equality, but it is also true that full participation by women in the labour market supports GDP growth, as more (qualified) human resources are involved in the production system. Increased participation of women in the labour market will also mitigate the impact of the contraction of the labour force due to an ageing population, and will stimulate economic growth. The IMF indicates that GDP would rise considerably if women's labour force participation were equal to that of men.

Providing women with equal economic opportunities and unleashing the full potential of the female labour force, with significant prospective growth and welfare implications, will require an integrated set of policies to promote and support women's employment. Research suggests that well-designed, comprehensive policies can be effective in boosting women's economic opportunities and their actual economic participation. Implementing policies that remove labour market distortions and create a level playing field for all would help boost the demand for women's labour.

With respect to gender, incentives should be in place to increase participation in the labour market by women and/or older people. Along with improving skills, this can produce larger gains in the medium to long term. The issue has been developed in a recent report analysing the impact of government policies on secondary earners. Secondary earners are individuals who are employed and earn less than their partners. They represent the majority of working women in married or cohabiting couples. Women's labour market participation is known to be responsive to financial incentives and disincentives. The effects of different policies can be seen in increased hours worked, income earned or labour force participation rates for women. For new entrants to the labour market, the effects can be seen in increased numbers starting work. The evidence is consistent with the theory that the design of the tax benefit system, or out-of-pocket childcare costs (or both), can affect the secondary earners' choice of working hours or their decision to enter employment.

Finally, gender inequalities are particularly relevant when the pension system and reforms are taken into consideration. Many recent pension reforms concern themselves with correcting incentives and other parameters responsible for gender pension inequality and in this sense create a 'level playing field' between women and men. If earnings and pay inequality is eradicated in paid labour, it follows that the underlying conditions for gender differences in pensions would cease to exist. In this sense, and if current policies are maintained, the pension gender gap will disappear on its own. Once reformed pension systems settle to their long-term condition, gender will no longer be a cause for concern for pension policy.

Gender equality in economic and financial affairs is thus still influenced by a set of persistent gender inequalities, which are as follows:

gender implications in labour market policies and reforms

gender implications in fiscal policies

gender implications in pension policies and reforms.

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## **Issues of gender inequalities in the policy area**

### **Gender implications in labour market policies and reforms**

Gendered division of labour and the gendered nature of institutional arrangements, which differentially structure women and men's access to opportunities and resources (including employment), mean that labour market outcomes vary between women and men. Under these circumstances, different labour markets and/or reforms are likely to generate different results for women and men, with strong related implications for welfare outcomes.

At the same time, the increased participation of women in the labour market will mitigate the impact of the contraction of the labour force due to an ageing population, and will stimulate economic growth. The IMF indicates that GDP would rise considerably if women's labour force participation were equal to that of men; for instance, equal participation would raise GDP by 5% in the United States, by 9% in Japan and by as much as 34% in Egypt.

With the prospect of a shrinking working-age population, increasing the labour force participation and raising the employment rate of women is paramount to meeting the Europe 2020 headline target (75% of the population aged 20 – 64 should be employed by 2020), thereby counteracting the shrinking of the workforce and boosting growth. This requires continuity of effort to tackle gender gaps, particularly in terms of pay, economic activity, career prospects, and therefore pensions, and to move from a model with one male earner and female carer to a dual model where both women and men are earners and carers. GDP per capita losses attributable to gender gaps in the labour market have been estimated at up to 10% in Europe.

Other policies to increase women's participation in the labour market refer to aspects related to working arrangements and labour time. The availability of flexible working arrangements allows women to better balance their formal employment with other demands on their time. Moreover, the forms of flexible working arrangements are both country- and company-specific and can include telework and compressed work schedules. Policies could encourage a more gender-neutral use of flexible working arrangements and a larger uptake of parental leave benefits by fathers. Additionally, part-time employment has become an entry point to the labour market for women whose labour supply is constrained by family responsibilities. Facilitating the eventual transition from part-time to full-time employment could help to mitigate the lower pay and benefits and the more limited career opportunities associated with part-time work. Finally, regulatory reform that supports child and elderly care can also promote gender equality.

### **Gender implications in fiscal policies**

Fiscal policies are strictly related to labour market policies and reforms. Indeed, taxation of income from labour and government spending on social welfare benefits have similar effects on labour markets. They weaken the link between labour supply and income, thereby influencing the decision to participate in the labour market. Therefore, the appropriate design of benefits is important in avoiding disincentives to work.

A growth-friendly tax structure could go hand-in-hand with social equity if tax reforms are adequately designed. Fiscal reconsolidation policies do not have the same impact on all women. Labour taxes are often high and particularly detrimental to low-skilled and second earners, contributing to persistent exclusion of these groups from the labour market. High labour taxes (including social security contributions) can reduce the incentives either for the low-skilled to work or for employers to hire them, or both. Moreover, increasing tax expenditure in the area of personal income tax may be less efficient in achieving the initial objectives than direct support to low-income households:



*If taxes are imposed on family income rather than individual income, the tax wedge applied to secondary earners – often married women – will be higher than for a single but otherwise identical woman. Family taxation and family-related tax elements (such as mandatory joint filing, dependent spouse allowances, and tax credits conditional on family income) are still widespread.*

Individualisation of income tax alone is, however, not enough. Fiscal allowances for unpaid care labour are even more important in terms of creating equal opportunities for workers with family responsibilities, and preventing pension gaps. Fiscal policy which includes 'publicly financed parental leave schemes can help parents reconcile work and family life, and maintain their connection to the labour market through a guaranteed return to their job. Additional policies are often needed to provide and encourage greater parity between paternity and maternity leave, and to support mothers with a more rapid return to the labour market, including raising awareness about shared parenting, and public investments in accessible and good-quality care facilities for children and elderly people. According to Christine Lagarde, '[c]ountries can lift up women by adopting more pro-female, pro-family approaches. Such policies include moving more from family to individual taxation; providing more affordable childcare and parental leave; and providing a flexible working environment'.

### **Gender implications in pension policies and reforms**

The gender gap in pensions can be understood as the sum of gender inequalities over a lifetime, including differences in the life course (motherhood penalty), segregated labour market and gendered social norms, and stereotypes more generally.

The gender gap in pensions throughout the EU is considerable. In 2012, the gender gap in pensions amounted to 38% on average in the EU. Notwithstanding the fact that the difference between pensions varies from country to country – from 5% in Estonia to 45% in Germany – the tendency for men to receive higher pensions than women is observed in all Member States.

A gender gap in pensions of 38% for 2012 is not only an alarming number for the individuals concerned; it also gains relevance when understood as the sum of gender inequalities over the life course. The gender gap in pensions can be explained by women's lower lifetime earnings and smaller or interrupted social security contributions, due to caring responsibilities, pregnancy and greater propensity to work part-time.

Pension gaps can be prevented if workers – both women and men – are entitled to care allowances to build up pension rights in those periods of their lives when they are unable to work full-time due to additional care work for young children, a sick partner or elderly parents.

The possibility of being able to balance pension sustainability and adequacy has a definite gender dimension. Increasing women's participation in paid labour is the single largest resource that can bolster pension systems. Additionally, greater (paid) labour input on the part of women will be the most important long-term answer to the problem of poor older women with low pensions. However, more paid labour on the part of women comes at the price of fewer overall resources devoted to care work (paid and unpaid). What is gained in terms of financial sustainability from a more supportive tax and pension system may be lost in the longer run through, for example, lower fertility. A pension system that encourages women's work without compromising total care resources is a win-win solution.

Pension benefits in the EU are based on gainful employment over the life course. Specifically, in recent years reforms have linked old-age pensions to longer periods of gainful employment. As women's life courses often involve periods of unpaid care work, they face a disadvantage.

Insufficiently gender-sensitive pension reforms, and the privatisation of pensions, can significantly hamper women's access to economic resources in old age. Gender-blind policies, such as the current shift towards private pensions, can amplify inequalities as men are more likely to be financially capable of investing in private pensions as opposed to women, due to higher wages and less involvement and participation in childcare. Pension reforms should therefore be approached from a gender perspective and should account for both women's and men's lived experiences and life courses.

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## **Gender equality policy objectives at EU and international level**

### **EU level**

#### **European Commission**

The European Commission is focusing on tax and tax reforms with particular reference to low-wage and second-income earners, among whom women are over-represented. The tax wedge remains high in many Member States. A high and in some cases increasing tax wedge, especially for low-wage and second-income earners, remains an important issue in a considerable number of Member States. Tax benefit systems in some countries continue to discourage women to take up work or work more, in particular by providing disincentives for second earners to work full-time.

Some groups within the population are considered particularly responsive to changes in after-tax wages, e.g. low-income earners and second earners. The tax burden on second earners is high. This is considered to be the case if the inactivity or low-wage trap is relatively high, with labour taxes making a relatively large contribution to the disincentive effect. If the employment level for the relevant group (overall, low-skilled workers or women) is relatively high, the need to reduce the tax burden on labour is considered a borderline case.

In its annual policy recommendations on national reform programmes of Member States, the Commission points out the attention paid to this issue, and several examples of recommendations may be identified. For example, in its Recommendation to Austria in 2014, the Commission stated that “high social contributions and entry income taxes are likely to lower incentives to work for individuals with low earnings potential and for second earners”, while in the same year it invited Germany to “take measures to reduce fiscal disincentives to work, in particular for second earners”.

In its policy paper An agenda for adequate, safe and sustainable pensions, the Commission sets out the options for national action and EU support. It focuses in particular on the need to enable and encourage people to stay in work longer and to save more for their retirement through supplementary pension schemes. The White Paper proposes some specific actions with a gender impact. Key actions are the promotion of longer working lives by linking retirement age with life expectancy, restricting access to early retirement and closing the pension gap between women and men. In its annual policy recommendations on the national reform programmes of Member States, the Commission points out the attention paid to this issue as well. For example, it suggests that Member States should “take measures to ensure the long-term sustainability of the pension system including, by earlier harmonisation of the statutory retirement age for men and women, [and should] link the statutory retirement age to life expectancy”.

## **European Parliament**



In its report European Semester for economic policy coordination: Implementation of 2015 priorities, the European Parliament calls on the Commission to ensure that in its policy guidance labour market reforms are aimed, inter alia, at promoting gender equality. This includes providing guidance to Member States on addressing the low participation of women in the labour market by tackling labour market segregation, the gender pay gap and the unequal distribution of care responsibilities. It also stresses the need for a broader gender-equality approach going beyond employment rates. The Committee on Women's Rights and Gender Equality (FEMM) submitted an opinion to the Committee on Economic and Monetary Affairs in the same report, FEMM, which included, inter alia, that it:

regrets the absence of gender mainstreaming in the Europe 2020 Strategy, and calls on the Commission and the Council to introduce a gender-equality pillar and an overarching gender equality objective into the strategy;

reiterates that the goal of coordinating economic and fiscal policies in the Member States can be achieved only if policies on equality are also coordinated;

welcomes those country-specific recommendations (CSRs) intended to advance gender equality, but calls for greater inclusion of the gender mainstreaming perspective in the formulation of CSRs, specifically with regards to labour market reforms and work–life balance;

calls on the Commission to ensure that Member States implement the CSRs of the European Semester on strengthening the principle of equal pay between women and men through transparency and addressing the gender pay gap;

calls for specific equality policy guidance on reducing other gender inequalities to be included in the annual growth survey;

calls on the Member States and the Commission to remove the constraints on women participating in the labour market, notably by establishing mechanisms, in particular appropriate periods of maternity, paternity and parental leave, to be standardised across the EU, in order to enable women to achieve a good work–life balance;

reiterates its call on the Member States to incorporate the gender dimension into their stability and convergence programmes and national reform programmes;

calls on the Commission to support the Member States in making greater use of structural funds for investment in public care structures and services for children, the elderly and other dependents;

notes the disproportionate impact that lack of investment in public care structures and services has on single parents, the vast majority of whom are women;

stresses the need to prioritise action to tackle unemployment, poverty and social

exclusion, which affect women above all, and to give priority to sustainable employment, high-quality jobs, investment, and high-quality public services which ensure social inclusion, especially in the areas of education, health, childcare, care of dependent persons, public transport and social services;

calls on the Commission and the Member States to formulate and implement CSRs on subjects specifically affecting the position of women in labour markets;

notes that the financial and economic crisis has had serious implications for the demographic challenges facing Europe, including the ageing population;

notes that the gender pensions gap in Europe stands at 39% and emphasises that employment policies and the design of social transfer systems have profound implications for women's ability to pay pension contributions, and that CSRs should take account of this situation;

argues that the gender implications of longer working lives need to be examined;

invites the responsible Commissioner(s) to discuss the gender aspects of the annual growth survey with the Committee on Women's Rights and Gender Equality each year;

is deeply concerned by the fact that cuts in the financing of women's organisations, institutions and equality bodies have led to closures and a significant scaling-back of operations;

calls for specific guidelines and procedures to be included in the European Semester to ensure accountability, consultation and dialogue with national stakeholders, civil society organisations and trade unions; and

stresses that labour market flexibility must not come at the cost of forms of social protection such as minimum wages, collective bargaining rights or maternity and paternity rights, or jeopardise the preservation of secure, high-quality jobs in line with the Decent Work Agenda.

## **International level**

### **United Nations**

The United Nations Department of Economic and Social Affairs recognises that the economic and financial crisis puts a disproportionate burden on women, who are often concentrated in vulnerable employment, are more likely to be unemployed than men, tend to have lower unemployment and social security benefits, and have unequal access to and control over economic and financial resources.

Gender inequality carries economic costs. Missing the MDG 3 target could result in countries having 0.1 – 0.3 percentage points lower per capita growth rates. Estimates show that the Asia and Pacific region is losing \$42 billion to \$47 billion annually because of women's limited access to employment opportunities, and another \$16 billion to \$30 billion annually as a result of gender gaps in education. A growing body of evidence demonstrates that investing in women and girls has a multiplier effect on productivity, efficiency and sustained economic growth. It is crucial to ensure that policy responses to the financial and economic crisis take into account the differential priorities and needs of women, men, girls and boys and do not undermine the policies and plans that promote gender equality and women's empowerment.

During the 53rd session of the Commission on the status of women, the Commission decided to focus in 2009 on the gender perspective of the financial crisis as an emerging issue. An interactive expert panel was held on 5 March 2009 where gender-specific impacts of the financial and economic crisis and their disproportionate burden on women were discussed. Participants recommended measures to ensure that gender perspectives are incorporated in policy responses to the financial crisis.

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## **Policy cycle in economic and financial affairs**

### **How and when? Economic and Financial Affairs and the integration of the gender dimension into the policy cycle**

The gender dimension can be integrated in all phases of the policy cycle. For a detailed description of how gender can be mainstreamed in each phase of the policy cycle [click here](#).

Below, you can find useful resources and practical examples for mainstreaming gender into economic and financial affairs policy. They are organised according to the most relevant phase of the policy cycle they may serve.

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## **Practical examples of gender mainstreaming in Economic and Financial Affairs**

### **Belgium**

As part of a wider tax reform, an individualised earned income tax credit (CIBRAP) was introduced in 2001 as one of the measures to achieve the goal of reducing the tax burden on earnings and as part of a wider drive to individualise the income tax system. The credit is a fully individual right, independent of household type, covering most of the employed population (it is available to all persons working at least 13 hours per week with net earned income above €3,750). One specific objective is to draw young people and women into employment and the other is to reduce the poverty risk for low paid workers.

### **Sweden**

The public investment in subsidised childcare in Sweden was further extended in 2002 through the introduction of a maximum fee for parents, which has contributed to a reduction in the marginal tax effect on the labour supply of parents. The impact will be primarily on women's labour supply, particularly those who are lower-paid, for Swedish studies have shown that childcare costs have a greater impact on women's labour supply than on men's, and that directly subsidised childcare has a more positive impact on increasing labour supply than does personal tax relief for childcare.

The key milestones of the economic and financial affairs policies are presented below.

## **The Treaty of Rome**

The [Treaty of Rome](#) is signed by 6 countries - Belgium, France, Germany, Italy, Luxembourg and the Netherlands - creating the European Economic Community (EEC, later the EU) with its "common market".

1957 - 1957

## **The EEC**

The EEC eliminates all quotas and tariffs – duties on imported goods – from trade in goods within it.

1968 - 1968

## **Council Directive 79/7/EEC**

[Council Directive 79/7/EEC](#) of 19 December 1978 on the progressive implementation of the principle of equal treatment for men and women in matters of social security.

1978 - 1978

## The EU adopts the Single European Act

[The EU adopts the Single European Act](#). This prepares the road towards a single market and makes it possible for certain decisions to be taken by a majority vote in the Council of Ministers.

1986 - 1986

## Council Directive 86/378/EEC

[Council Directive 86/378/EEC](#) of 24 July 1986 on the implementation of the principle of equal treatment for men and women in occupational social security schemes (amended by Directive 96/97).

1986 - 1986

## Council Directive 86/613/EEC

[Council Directive 86/613/EEC](#) of 11 December 1986 on the application of the principle of equal treatment between men and women engaged in an activity, including agriculture, in a self-employed capacity, and on the protection of self-employed women during pregnancy and motherhood.

1986 - 1986

## The Maastricht Treaty

The Maastricht Treaty (Treaty on European Union) sets out the ground rules for the EMU and a single currency.

1992 - 1992

## Council Directive 92/85/EEC

[Council Directive 92/85/EEC](#) of 19 October 1992 on the introduction of measures to encourage improvements in the health and safety at work of pregnant workers and workers who have recently given birth or are breastfeeding (10th individual Directive within the meaning of Article 16 (1) of Directive 89/391/EEC).

1992 - 1992

## **The single market becomes reality**

DG ECFIN sets out policies and strategies to improve the functioning of the single market.

1993 - 1993

## **Council Directive 96/34/EC**

[Council Directive 96/34/EC](#) of 3 June 1996 on the framework agreement on parental leave concluded by UNICE, CEEP and the ETUC.

1996 - 1996

## **Council Directive 96/97/EC**

[Council Directive 96/97/EC](#) of 20 December 1996 amending Directive 86/378/EEC on the implementation of the principle of equal treatment for men and women in occupational social security schemes.

1996 - 1996

## **Treaty of Amsterdam**

[Treaty of Amsterdam](#), which came into force in 1999. Action against poverty written into the treaties. It gave the EU competence to combat discrimination and allowed for coordination on employment, economic, social inclusion and other policy areas. Known as the open method of coordination.

1997 - 1997

## **Directive 1997/81/EC**

[Directive 1997/81/EC](#) of 15 December 1997 concerning the framework agreement on part-time work concluded by UNICE, CEEP and the ETUC – Annex: Framework agreement on part-time work.

1997 - 1997

## **Directive 2010/18/EU**

[Directive 2010/18/EU](#) of 8 March 2010 implementing the revised framework agreement on parental leave concluded by BUSINESSEUROPE, UEAPME, CEEP and ETUC and repealing Directive 96/34/EC (amendment of the Directive 96/34/EC of 3 June 1996 on the framework agreement on parental leave concluded by UNICE, CEEP and the ETUC).

2010 - 2010

## **White Paper on adequate, safe and sustainable pensions**

The European Commission publishes a [White Paper](#) on adequate, safe and sustainable pensions which puts a strong emphasis on gender issues (e.g. equalising pension ages, reducing the gender pension gap, active ageing for both women and men).

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## Current policy priorities at EU level

The European Commission maintains its balanced strategy for jobs and economic growth, focusing on 5 main priorities:

- pursuing differentiated, growth-friendly fiscal consolidation
- restoring bank lending to the economy
- promoting growth and competitiveness for now and in the future
- tackling unemployment and the social consequences of the crisis
- modernising public administration (European Commission, 2014)

As indicated in the management plan 2014 of DG ECFIN, its highest priorities in the short term are overcoming the economic and financial crisis, and the recovery of the European economy (European Commission Directorate-General for Economic and Financial Affairs, 2014c). The main objectives of DG ECFIN from a multi-annual perspective are (ibid, pp. 8 – 10):

- To foster EU growth, employment creation and sustainable development by bringing the budgets of Member States in line with the stability and growth path, and increasing output growth;

- To promote prosperity beyond the EU, in close cooperation with the Directorate-General for Development Cooperation (DG DEVCO), the Directorate-General for Enlargement (DG ENLARG) and the European External Action Service (EEAS).

DG ECFIN's operational activities are focused on 3 policy areas (ibid, p.12):

- Strengthening the economic and monetary union (EMU): Activities include the coordination of economic policymaking between the Member States, as well as coordination of their fiscal policies. The economic policy guidance and country-specific surveillance of the Member States by DG ECFIN follows each year the cycle of the European Semester, which is the annual intervention logic used by the DG ECFIN for the coordination of economic and fiscal planning with the European Council, the Member States and the European Parliament.



International economic and financial affairs: A wide range of activities, including coordination with international economic and financial institutions including the IMF, World Bank, OECD and multilateral development banks.

Financial operations and instruments: This area includes treasury management of EU budgets, cooperation with the European Investment Bank Group and management of financial instruments under the competitiveness and innovation programme (CIP). These financial instruments should also contribute to the implementation of Europe 2020: a European strategy for smart, sustainable and inclusive growth.

Europe 2020 is a common agenda for transformation, a process driven by 5 EU headline targets for 2020 which are translated into national targets:

Out of the population aged 20 – 64, 75% should be employed.

The amount of the EU's GDP invested in research and development should be 3%.

The '20/20/20' climate/energy targets should be met (including an increase to 30% of emissions reduction if the conditions are right).

The share of early school leavers should be under 10%, and at least 40% of the younger generation should have a third-level degree.

The number of people at risk of poverty reduced by 20 million.

To catalyse progress under each of these priority themes a wide range of actions is undertaken, which are summarised as 7 flagship initiatives:

Innovation Union, to enhance research and innovation which creates growth and jobs;

Youth on the move, to increase the employability of young people;

A digital agenda for Europe, to increase the benefits of a digital single market;

Resource-efficient Europe, to promote a shift towards a low-carbon economy, the use of renewable energy, modernisation of the transport sector and energy efficiency;

An industrial policy for the globalisation era, to improve business and small and medium-sized enterprises (SMEs), and an industrial base able to compete globally;

An agenda for new skills and jobs, to modernise labour markets, increase labour participation and mobility, and better match labour supply and demand;

European platform against poverty, to ensure social and territorial cohesion, shared benefits of economic development, a decent life and active social participation for all.

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**Want to know more?**