

# The tale of two Germanies highlights how childcare provision benefits women <sup>[1]</sup>

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**Source:** The London School of Economics and Political Science

**Format:** Article

**Publication Date:** 18 Apr 2018

## AVAILABILITY

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## EXCERPTS

Gender inequality in firms is an issue which has concerned both economists and policymakers. In spite of significant improvements in women's career prospects, the gender pay gap still persists. One crucial component as to why women on average earn lower wages than men is parenthood. I provide evidence of the positive impact of child care policies on women's careers and wages.

Germany provides an ideal test case because of its historical antecedents. There is a distinct difference in attitudes towards working women between the former East and West Germany, i.e., the German Democratic Republic (GDR) and the Federal Republic of Germany (FRG), respectively. The higher rates of child care facilities as well as more positive attitudes towards mothers in East Germany have roots in the former socialist system of the GDR that supported working mothers both ideologically and practically. This translates into much better publicly provided child care systems by the local and state governments in the geographic areas which were in the erstwhile German Democratic Republic.

This difference across geographical areas persisted even after the collapse of the GDR in 1990 and is still observable today. We exploit this unique aspect to study the effect of child care policies on the gender wage gap and wage progression of women across different counties in the former East and West Germany. However focusing on the cross-sectional variation across East and West Germany opens us up to concerns that we are also identifying the effect of time invariant attitude differences towards women, work and family across East and West Germany. Therefore, to address such concerns we identify the effects of child care provision on women's career outcomes by exploiting changes in child care provision in Germany over time which have been significant on account of different government mandates and attitudes towards women, work and family.

We find that government-provided child care has a positive impact on wages of women and thus decreases the gender pay gap. Specifically, a one standard deviation increase in childcare provision leads to a 39.2 per cent decrease in the gender pay gap. The effect on mothers is 2-3 times larger than the baseline effect on women. Additionally, mothers in counties with more childcare provision have larger wage changes that are likely to be associated with promotions. These effects are causal as our individual worker level data allows us to control for time invariant effects of attitudes towards women, work and family that might differ across different regions in Germany.

We also find that women with small children or many children, women in the highest wage bracket, and women who are more educated are more likely to experience these benefits. Taken together, our results suggest that government provided childcare allows women, and particularly mothers, to earn higher wages and eases out the trajectory over the job ladder from the ground up.

Our paper contributes to the literature on gender quotas and their impact on firms' financial outcomes. One policy implication of our results is that a top down approach (like the mandated quota) to correct gender disparity in firms is not the ideal policy method if it is not accompanied by other policies tools such as child care provision. A bottom up approach that improves women's career progression through family friendly policies such as child care provision is important to ease the progress of women over the job ladder. In other words, our results suggest a complementarity between government provided child care policies and mandated board quota to promote gender

equality in the top echelons of the firm.

Thus, we present new results as to how child care provision can have significant positive effects on not only women's labor supply but also the progression of women in their careers. Our results have significant implications in shaping public policy in countries such as the US where there is very little attention given to government-provided child care..

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