

**WIFO**

ÖSTERREICHISCHES INSTITUT  
FÜR WIRTSCHAFTSFORSCHUNG

 **WORKING PAPERS**

**THE HOUSEHOLD LABOUR SUPPLY  
AND THE LABOUR MARKET  
OF THE FUTURE**

**GUDRUN BIFFL**

# THE HOUSEHOLD LABOUR SUPPLY AND THE LABOUR MARKET OF THE FUTURE

GUDRUN BIFFL

WIFO Working Papers, No. 193  
January 2003

# THE HOUSEHOLD LABOUR SUPPLY AND THE LABOUR MARKET OF THE FUTURE

GUDRUN BIFFL

## Abstract

The core premise of this paper is that in the post-modern industrialised capitalist societies the rigid separation of the market labour supply and the household labour supply is no longer realistic. The lack of attention of orthodox economic theory to unpaid work and its role in the supply of labour accounts for the gap in explanations of why, in the course of economic development, the state entered as a mediator between the two spheres, i.e., assisted the household sector by the provision of welfare (welfare state). The current belief in some quarters that we may have to choose between a market economy and a welfare state is a consequence of the missing theoretical link between the two spheres of production. This paper links these two spheres, focusing on the interdependence of market- and household work. It then draws some implications for the role of the state. The paper emphasises the limits of the concept of 'market failure' and 'atomistic conduct'. Finally, the paper highlights the manner in which a choice of methodology has policy implications.

## Introduction

The labour market changes as a result of the interaction of socio-political, technological and economic factors. We are currently experiencing major changes in all three spheres. Globalisation and technological change, in particular the rise in knowledge based industries, have a revolutionary dimension just as much as the changes in the organisation of the nucleus of the society, the family. Practically all aspects of life are affected by such fundamental transformation. It is thus not surprising that the organisation of work is undergoing rapid change. It manifests itself in many industrialised economies in an increasing destandardisation of behaviour patterns both in the sphere of employment as well as private life. The causality runs both ways and feedback loops reinforce diversification. The changing pattern of family life over the life cycle is just as much an explanatory factor for the transformation of labour supply by gender, age and skills as are the changes in the organisation and structure of labour demand. The difference between the employment patterns of men and women as well as their degree of integration into the labour market diminishes as a result of increasing individualisation processes on the demand and supply side of the labour market.

The traditional welfare systems, be they linked to labour market activity, family ties or both, are being transformed and show signs of convergence as the main pillars of the system (work and family) are undergoing fundamental changes. The conceptual division of paid work in the market and unpaid work in the household, which we have come to accept since the industrial revolution in the last century, and which has contributed to the exclusion of the household sector from economic analysis, is becoming less realistic. Technological change, in particular modern communication technology, allows the extension of market work beyond the realm of firms into the household (teleworking). At the same time large segments of household work are being transferred onto the market, in particular to the public sector. The type of labour which is being transferred is largely care-work - it ranges from childcare to care for the sick and disabled and the elderly. These transformations would have been less difficult to explain if one had included, in the first instance, the interaction of market and household work and their respective products as a source of consumption and investment in the body of economic theory. The market and household sector interact in complex ways. They are part of a system of communicating vessels. The mix changes over time as a result of technological, economic and social changes. It cannot be explained satisfactorily on the basis of a static and simplistic interplay of selfish, atomistic, maximising agents premised in economic theory. Market actions are replete with externalities, public goods, transaction and enforcement costs, co-operative and collective behaviour such that mathematical solutions become intractable. Interdependent needs are at the root of normative solutions, which take the form of culture, and established ethical behaviour<sup>1</sup>.

In what follows, I first look at the supply side of the labour market. Second, I draw attention to recent developments in the character of market work, which are the key to a new organisational paradigm, i.e., forces on the demand side of labour. The changing division of labour in a world context as well as within countries results in a redesign of the regulatory mechanisms of market work, be they labour laws, wage determination systems, social security and health and safety regulations. Finally, I point out that the conceptualisation of economic processes and their driving forces has implications for policy design.

## Household labour supply

The household sector assures the continuous supply of labour for the labour market through a set of complex functional mechanisms. The household (family) is the setting, in which human labour resources are being recharged through the consumption of goods and services bought from the market (on the basis of market income) or produced by the household for one's own consumption (on the basis of unpaid labour)<sup>2</sup>. It provides labour-resources for market work – productivity

---

<sup>1</sup> Archer (1988) points out the failure of social sciences to reconcile culture and agency.

<sup>2</sup> The household/family is not the only place of the daily renewal of human resources; intergenerational renewal of human resources is, however, under present social conventions only conceivable in a family context.

increases in household production set labour resources free, in particular female labour. Apart from that, it is a source of population growth and hence work force growth through procreation and provision of early education and care for children. Children are in that sense not just a consumption good, i.e., satisfy a private need, but also an investment good, i.e., represent the basic human capital input for future production of goods and services. One may side-step the household sector in the provision of labour supply by taking in workers from abroad, through immigration. The state saves costs on education and training by importing labour. Analogous to this argument is the loss of private and public expenditure on childcare and education in case of emigration of workers.

The labour supply is neither in the short nor long run, entirely exogenously determined but responds also to changes in the economy and the institutional setting. The potential of the activity rates of men and women and their employment opportunities differ according to the age structure, educational and retirement policies, work conditions, and gender roles in the division of labour between household and market work. Within this potential, labour force participation of married women depends upon the number of children and the extent to which public and private sector institutions take over care work from the family. Generous transfer payments and public services reduce the dependence upon the family for care work. At the same time they set labour resources free, to be employed in the labour market, often for similar tasks as in the household sector. Wage setting mechanisms and the extent to which they prevent gender segmentation, are of particular importance in the efficient allocation of labour between household and market production. There are mass-consumption areas in the public good sector, e.g., education, and in the welfare state, e.g., health services, unemployment protection, retirement provision, in which cost-efficient provision of services is more easily obtained by those working in the market. Economies of scale are possible and technical infrastructure (in particular new technology) can be put into place to ensure productivity increases which are less likely in the small-scale household sector of industrial societies. If the services are not provided by the public sector, private agents would have to perform the job. However, there appears to be no viable alternative to the state in the provision of welfare in the area of mass-consumption. Equity as well as efficiency criteria are to be taken into account in public as well as private sector provision.

Thus, the increasing labour supply of women has to be seen in the light of changing family structures (decline of fertility, rise in the number of single households), changing expectations of women, changing wage determination mechanisms (equal opportunities legislation), urbanisation and a change in the division of work between the household and market sector. The geographic mobility and the physical separation of family members from the household in different phases of personal development, diminish informal exchange and assistance between generations – parents and children – such that the state, in many countries, is drawn to take over the role of mediator through the provision of services (childcare, nursing homes) and/or benefits (transfer payments) in order to secure the welfare of the needy members of society. Many of the services which have been

transferred from the household sector to the market sector since the second World War remain almost exclusively a female employment domain. This development is reminiscent of the transfer of the production of consumer goods (textiles, clothing, food etc) from the household to the market in the wake of industrialisation towards the end of last century. The production spheres, which constitute the female domain of work in traditional societies, continue to do so in the developed industrial societies<sup>3</sup>. Countries with above average female participation rates can be said to have transferred household services to the market to a larger extent than countries with a low degree of integration of women into the formal market sector. This development results in an above average concentration of female labour in so-called 'female' occupations, e.g., the case of Sweden. If one looks at the occupational composition of total labour (market plus household sector), one observes greater similarity in the degree of gender segmentation of work between countries and within countries over time than in the case of market work only. Institutional factors, and in particular the basic institutional model of the welfare state, are responsible for major cross-country differences in employment structures by economic sector, occupation and gender. Thus the employment structure of a country will reflect whether the welfare model is based on the predominance of the male breadwinner or on a more equal balance of male and female breadwinners. These different concepts have implications for market labour supply and demand – their level as well as their composition. The lack of attention to the role of the household sector in the production of goods and services for the wellbeing of a society and for the assurance of a steady supply of skilled and healthy labour for market work accounts for the gap in neo-classical theory in explaining why, in the course of economic development, the state should have embarked upon the establishment of a new set of institutions, the welfare state<sup>4</sup>. Thus, international comparisons of labour market structures by economic sector, gender and skills as well as comparisons of one country over time, along a socio-economic development path, are inconclusive when it comes to the evaluation of the development of the wellbeing of a society and its overall efficiency in the production of goods and services, which are necessary for international competitiveness. The inadequate conceptual framework of economic theory has its counterpart in the lack of comprehensive statistics.

Economic theory and research have generally been concerned with the analysis of market processes within a given legal and institutional social system. The role of the household sector in the provision of a constant flow of labour services, e.g., through childrearing, basic education, nutrition, care etc, comes to the fore only when the public sector is required to take over these functions in response to society's call to increase and streamline the human capital stock. The 'technology' of the provision of services differs between the market and household sector and so

---

<sup>3</sup> Research on gender segregation of work demonstrates that high levels of occupational segregation of work continue to exist in modern industrial societies. There is considerable consistency across countries in the extent to which women are concentrated in certain major occupational groups (see *Anker, 1998*).

<sup>4</sup> The role of Pigou's conception of welfare for the framing of neo-classical thought has to be borne in mind and followed up in further critical research on this topic.

may their productivity and efficiency. The inclusion of the household production sector in a circular flow model of production and consumption may open up alternative pathways for the redesign of welfare systems. In a reform of the welfare system it may be necessary to go beyond the breadwinner model if the objective is to ensure social stability and to re-establish a sense of security in an individualised society.

The standard labour supply model, which only takes labour supply for market work into account, cannot capture the importance of the institutional setting for the labour supply. It is not just the wage rate and thus the price of leisure that drives individual labour supply decisions. Market labour supply of women in particular depends upon the extent to which the market sector produces the means of reproduction of labour. In a society where the market provides all the goods and services needed for the reproduction of the society, i.e., material goods as well as education and training, care over the whole life cycle, and labour through cloning (in a laboratory) or immigration, there is no need for household production and thus household work. However, this is not the society we live in. The market does not provide all the goods and services needed for the wellbeing of the members of society, and immigration can not take the place of natural population and work force growth fully.

We do not differentiate in our data to what extent we consume goods and services produced by the market and the household. We can only rely on estimates for the value of household-production and its role in total economic performance<sup>5</sup>. Textbooks generally regard utility to be maximised on the basis of consumption of only marketed goods and services from a given income. We know, however, that the utility of the individual is dependent upon the consumption of market goods and services, domestically produced goods and services (time input of each member of the family for tradeable goods and services) and pure leisure (non-tradeables), produced and consumed by oneself only. Time use data show that women allocate more time to household activities, which are consumed by all members of the family, than men. If this fact is not considered explicitly in the leisure-labour trade-off, one ends up with the implausible result that leisure is not a normal good for women. However, if one considers the sum of paid and unpaid work (which also has utility-value), in the trade-off for leisure, an increase in the demand for leisure by married women would be apparent as household income rises.

The distinction of market and household spheres is also helpful in understanding gender choice of education and training. The surplus of mechanics, for example, in the case of young men, and of dressmakers and hairdressers, in the case of young women, is a perennial feature of the Austrian labour market. That this occurs despite knowledge that not all are likely to find jobs in those occupations after apprenticeship-training, may be explained by the fact that these skills can come in handy in household production for the persons concerned or in a gift-exchange with friends and

---

<sup>5</sup> *Mishan* (1984) has his reservations about the secular growth of real income, if measured on the basis of GDP growth only. For a differentiated estimate of household production see *Ironmonger*, 1996, *Biffi* (1989).

neighbours. Education and training does thus not only serve market production but also household production. The skill composition of labour is the result of market and household inputs, i.e., a joint product.

The characteristics of the labour supply outlined in this section need to be considered in conjunction with the changing character and organisation of work inherent in the demand for labour.

## **The future character and organisation of work**

Comparable forms of labour market flexibility seem to develop in most industrial societies despite different labour market institutions and methods of employment regulation. The German/Austrian system, which is highly formalised and backed up by legislation, has experienced since the 1980s a growth in contingent labour, increasing job insecurity, a growing dispersion in earnings and incomes, similar to those experienced in Anglosaxon countries with less formal arrangements in the regulation of employment relationships. Changes in employment structures, pay systems, working hours, form of employment and job content are not solely the result of the internationalisation of production (and thus of product and factor market competition) and technological change. A shift in belief and value systems also plays a part, resulting in a convergence of management culture (a consequence of transnational economic activity) as well as national policies which attempt alignment in monetary and fiscal policy. Market deregulation, privatisation and the opening up of international markets leave national institutions with little room to manoeuvre in monetary and fiscal policy or in industrial relations. Individual contracts replace collective contracts, lateral work control (team work) replaces vertical controls, minimum wage regulations tend to be weakened or abandoned, employers' associations and unions suffer loss of membership or are dismantled. Through different functional mechanisms, increasing international competition depresses unskilled wages and working conditions standards. Measures to minimise production costs are introduced, the demand for labour curve becomes more elastic as firms have recourse to workers in other regions (multinationalisation of production). In short, the regulatory capacity of national labour market institutions is being reduced as nations compete for export markets and foreign direct investment.

In a quest to minimise costs and to increase productivity, enterprises endeavour to improve productive efficiency by measures that secure a better utilisation of existing resources, both capital and labour. One aspect is the more or less continuous use of capital stock, which can be obtained by changing conventional hours of work. Another aspect, directed towards long-term productivity improvements, is replacement of outdated technology with international best-practice technology (benchmarking). The third factor is reorganisation of management and workplace structures away from inputs and processes to outcomes, customers and markets. This latter aspect is linked with an increase in allocative efficiency by implementing a more cost-efficient pricing system – which may,



however, have negative equity consequences for the economy at large by contributing to a widening of the wage scale.

Further, in search of productivity increases and cost minimisation, enterprises organise work around core business units, which may even be turned into separate legal entities (firms/affiliates), along supplier-producer-distributor chains. One aim is to reduce the size of internal labour markets, i.e., bureaucracies, which have intricate career and wage structures<sup>6</sup>. The overall wage bill may be reduced via a multiplicity of measures: a reduction of hierarchies, outsourcing from the well paying often highly unionised industrial sector to small scale manufacturing or services firms, which are often non-unionised, and to individuals (homeworkers). Additionally the work force is split into core workers and peripheral workers. The former constitute the backbone of the work force. Their loyalty to the firm is assured through a combination of high wages (efficiency wages), which have a performance-oriented component, and stock options (ESOP – employee stock option plan). Peripheral workers may work at all skill levels. They are contingent workers on short term contracts or as temporary workers, often with temporary work agencies as intermediaries. The flexible employment form allows quick adjustment to market demand fluctuations or demand shifts. Specialist support is obtained from a network of business services. Business services, e.g., marketing, advertisement, logistics, insurance and legal services, computer-specialists, are the fastest growing employment segment in the industrialised world. A veritable explosion of business oriented services, which are acting on a global market, is currently taking place. Services are taking on the character of a well defined product, which is a precondition for their 'industrialisation', reminiscent of manufacturing production in earlier phases of economic development. Technological developments and economies of scale assure cost-effective prices of the services without diminishing wages in this highskill segment of jobs and enterprises (learning systems assure increasing returns to scale)<sup>7</sup>. More menial tasks like cleaning, which have built-in limits to productivity growth (decreasing returns) and thus to wage growth, are relegated to specialist firms. The relatively abundant supply of un- and semiskilled workers – a result of labour saving technological progress – assures low wages through an overcrowding effect.

In summing up, it could be said that enterprises tend to keep a portfolio of different types of employment (contract labour, temps, flexworkers, homeworkers, casuals, consultants, core workers), in order to spread risks and increase flexibility analogous to a firm or an individual holding a portfolio of different types of assets. The wage system becomes very complex and spans from the 'capitalist', who gets paid in stock options, to the consultant who has performance related pay components and the worker who gets paid piece rates or an hourly wage with or without social

---

<sup>6</sup> There are limits to widening the wage scale in an internal labour market. The introduction of two tier wage systems tends to have negative incentive effects, which may diminish total cost effectiveness.

<sup>7</sup> More about the fast growing increasing returns segment of production and employment in a knowledge society in Arthur (1994).

security coverage. The flexibilisation of work and wage systems and the linkage of market and household sectors work represent a challenge to collective bargaining.

The number of jobs involved in massproduction, which can be characterised by standardised work processes, declines (quantitative loss of jobs), while flexible specialisation gains weight – the increase in intra-industry trade is but one feature of Smith's division of labour concept. Flexibilisation does not only encompass alternative forms of employment and working hours but also variable job content and flexible firm networking (qualitative change of jobs). Multinational production is extended to the provision of services, facilitated by information and communication technology and regulated in GATS (general agreement on trade in services)<sup>8</sup>. Outsourcing of services from the industrial sector to the services sector is not only cost-efficient due to economies of scale of service providers but also due to the large wage differences between economic sectors, which may in some cases be the result of institutionalised wage bargaining (unionised versus nonunionised sectors), in others the result of differing market power or technical progress. Financial and accounting considerations are the major driving force behind increased inter- and intraindustry trade. While technological development has a dynamic of its own (endogenous technological progress), its implementation in work processes is driven by financial considerations. As a consequence standardised tasks are taken over by automation and computers, resulting in the total productive system undergoing change and renewal.

## The challenge for the welfare system

The challenge of the post-industrial society is, to develop hand in hand with the technical infrastructure, a socio-culture, which is going to reverse the trendbreak of the 1980s away from a more equal society in terms of incomes and wealth. In order to facilitate and accommodate more or less frequent transitions between different types of employment (household and market), periods of education and training, and inactivity over the life cycle, the different employment and pay systems will need to be integrated into a comprehensive social security and welfare system. These transitional types of employment are often not regulated by the existing regulatory social framework, legislation and/or collective bargaining. In the course of socio-economic restructuring and so-called deregulation, re-regulation sets in. The EU is currently endeavouring to remedy insufficiencies of social protection of teleworkers<sup>9</sup>. This is but one example of the general understanding on the need for states to provide some legal structure to protect people from market and technology driven changes in employment and labour standards. Many facets remain, however, in a household context – the household sector is dynamic and the state tries to regularise

---

<sup>8</sup> Examples of modern services mobility range from the outsourcing of programming or accounting services from Europe to India to the internationalisation of tertiary education.

<sup>9</sup> For details see *Pennings (1997)*, *Huuhtanen (1997)*, and *Blanpain (1997)*.

certain traits while others remain uncontrolled. The question arises to what extent regulations, which date back to the organisation and control of traditional industrial manufacturing work, e.g., night- and shift work, overtime pay, are still relevant in a time of nonstandardised work, including the case where home and the enterprise workplace are tending to overlap. Who should pay for the investment in capital stock (computer, desk, telephone), when the home is the workplace? Does the distinction between self-employed/homeworker and employee, when work is contracted out by an enterprise, assure the necessary degree of social security coverage, health and safety regulations and workers' compensation for accidents at work of the labour force? Who pays for advanced training? Is education and re-training a private or a public utility? Does contracting out of work to homeworkers imply that they have no access to the internal labour market of the contractor, i.e., no chance for career and wage rises?

The regulatory mechanisms, which may be put in place as homeworking becomes more pervasive, will determine, to what extent this group of workers will be marginalised or, alternatively, will represent a flexible and heterogeneous group, which voluntarily chooses this type of work as a permanent or transitory passage in life. The choice of welfare model will be decisive for the outcome.

If one holds on to the male breadwinner model, core jobs will be preserved for the male breadwinner while peripheral work will go to the secondary work force consisting of a significant proportion of females. In consequence, the flexibilisation of the family will make it hard, to maintain a stable income distribution in that situation. This raises the point that the current restructuring of market work has implications for the division of labour within the household. Who should be primarily responsible for care in the family? The person in a transitory stage between jobs? After all, given increasing life expectancy and decreasing fertility, childbearing and -rearing is only a relatively short phase in life. In that context one has to raise the question whether children are primarily a private or also a public good. In other words: do children only fulfil needs of parents, i.e., are they a relatively expensive consumption good, or are they also the most important investment good of a society (human capital stock)<sup>10</sup>. The family can not be conceptually segregated from the economy. The choices of individuals are based on self-interest as well as interdependent utilities (affection, altruism); the choices of one generation influence the capacities of the next (schooling etc). The interplay of market, state and family provides the basis for a sustainable growth in labour supply and human capital investment.

## Flexible family forms

The erosion of the concept of a normal job with standardised working hours, work processes and pay goes hand in hand with the erosion of the 'norm' family. Marriage today carries no social

---

<sup>10</sup> For an elaborate treatment of this topic see *Folbre* (1994).

privilege in society, neither are financial criteria imposed upon the persons, who want to marry, as was the case in the 18<sup>th</sup> and 19<sup>th</sup> century. Nevertheless, an increasing instability of partnerships set in in the 1960s, at least in Continental European countries, after a veritable marriage boom in the first half of the 20<sup>th</sup> century. Social change in favour of a general acceptance by society of changing partnerships, which is mirrored in legislation (e.g., divorce law), has taken place; the former hierarchical value-structure of forms of partnerships has been eroded. Contributory factors are increasing educational attainment levels of women, rising labour demand, effective contraception and facilitation of abortion such that marriages and partnerships are to a lesser extent than in the past moral and financial 'musts'.

The increasing individualisation of society implies a growing responsibility on the part of women for their own livelihood. Since women do most of the household work, their life-time earnings and occupational advancement are reduced compared to men. The tenet of the 'New Household Economics' that the existing gender-division of household and market labour is efficient and a result of individual preferences<sup>11</sup> is based upon the assumption of stable partnerships and a male breadwinner social security system – an underpinning of the status quo rather than an analysis into the validity of the assumption of the free choice of individual household members. The increasing instability of marriages as well as jobs (also for prime-age male workers) undermines the basic argument on the efficiency of the current gender division of labour. Female labour force participation becomes an economic necessity in cases of intermittent employment of the male 'breadwinner' and the end of the 'family wage', an imperative no different from the case of marital breakdown. Since household work fulfills certain needs in a society, the question arises about the optimal mix of household and market sector services, and thus of the gender division. Since welfare systems are adjusted from time to time in practically all industrialised countries, and since these adjustments remain in many ways prisoners of the historical path of evolution, it is helpful to consider the origins of the welfare models.

## Different models of the welfare state

In the course of this century all western industrialised countries developed welfare state models, in order to assure the wellbeing of needy members in an increasingly complex industrial society. In the economic literature one tends to distinguish between three basic welfare models<sup>12</sup>: the 'patriarchal' or male breadwinner (Anglosaxon) model, the family oriented continental European model, and the social democratic-egalitarian or individual rights model of Scandinavia. In the course of the 1960s, a certain convergence of the three models set in. As a result, we tend to have

---

<sup>11</sup> The model is based on *Becker* (1981), see also *Main* (1993). For a critique see *Biffl* (1993).

<sup>12</sup> *Esping-Anderson* (1990) proposes the distinction of three types. *Sainsbury* (1994), in contrast, points out that, as far as male-female employment opportunities are concerned, only a dichotomy exists. She uses the case of Netherlands (for the breadwinner model) and the case of Sweden (for the individual model) to demonstrate the wider institutional setting of the differing welfare models and the implications for the gender - division of labour.

hybrid forms of welfare systems, whereby the basic logic of the original model is retained. The outcomes of the models as to degree of integration into the labour market, occupational structure, social insurance benefits and career paths of women are quite different.

In the patriarchal as well as the family oriented system, the same general understanding about the gender division of labour between the household and the market sector is built into the system of wages, taxes and transfer payments. Men are seen as the main breadwinners and women as supplementary income earners. Men are, therefore, presumed to be at the top of the job scale. Women are supposed to fulfil household duties, in the main care-work, and add to family income by working on the labour market in 'female' jobs – these jobs may have working hours, that are non-traditional for men, e.g., part-time, or are occupations men tend generally not to favour (consumer goods production, clerical services, sales personnel, personal services, nursing). Wages for men are significantly higher than for women; this is a remnant of the wage determination system, which was based on notions of different 'needs' by gender. Wages for men were meant to represent a family wage, while female wages were supposed to sustain an individual only, or they constituted a supplement to family income<sup>13</sup>. Legislation on equal pay for work of equal value, given the significant gender-typing of occupations, was introduced in most industrialised countries in the course of the 1970s to counter the practice of wage discrimination by gender<sup>14</sup>. The introduction of individual taxation<sup>15</sup> together with equal pay legislation were the most powerful instruments in favour of full-time market work of women<sup>16</sup>. As a result employment opportunities of women improved and the wage gap between men and women narrowed. Insufficient supply of childcare facilities, another typical feature of the breadwinner model, remains the reason for continued poverty of single mothers.

Labour market legislation is part of a more general socio-economic and welfare system. The UK-System (Beveridge-model), which was introduced after WW II, and which is in the main administered and financed by the state, out of taxes, represents a comprehensive population insurance system. Welfare payments are not dependent upon former employment but can be accessed by every member of society, as in the case of health services. The basic model is complemented by a contribution based insurance system, which represents a means to top up the minimum state provisions through private funds (pension and health insurance). A right to childcare is not included in the legal framework, which exacerbates the social class stratification of women.

---

<sup>13</sup> Gill (1990) points out that 'the formulation of gender specific needs laid the foundation for the formal system of discrimination of pay on the basis of sex'.

<sup>14</sup> If women are doing 'men's work', they are usually granted a man's wage; in female jobs, however, the determination of the 'proper' wage remains a hot topic of debate.

<sup>15</sup> Individual taxation was introduced in the UK in 1989, i.e., much later than in the continental European countries. First in line were the Scandinavian countries (late 1960s), as a result of the individual rights labour model.

<sup>16</sup> For a detailed exposé see Gustafsson (1996).

Continental Europe in contrast, chose a welfare system, which has two pillars – the social security system, which is based on market work, and a family-oriented tax-/contribution and benefit system. The system of family and child allowances represents a major factor for the better financial situation of families in continental Europe vis-à-vis the UK (parents/family income model versus male breadwinner model). In the continental European system the idea of a male breadwinner wage is somewhat diluted. Financing family allowances out of general taxes is, after all, in the interest of employers, since it keeps the two issues of labour separate: labour as the major factor of production and thus production cost, and workers as the major single determinant of demand for goods and services. Family allowances increase the purchasing power of families with children (in this phase of life, the marginal propensity to consume is very high) and keep wages below a 'family wage'. France in particular, has a long tradition of employer-support for women employment, with the objective, originally, of binding whole families to the factory. As a result, France has a comprehensive full-day public childcare and school-system, which ensures that not only men but also women can pursue life-time careers. The system in German-speaking countries is not as comprehensive as the French one, the 'family wage concept' for the male breadwinner is more prominent than in France, and there is no right to child care, and schools are rarely day-schools. The latter aspect introduces a certain rigidity of working hours of women in the labour market; the opening hours of childcare services and schools act as segmentation devices for female labour supply. The labour market outcome in Central European countries is thus similar to the Anglosaxon model, in which care work is relegated to the household, social security benefits for the dependent worker are lower, resulting in lower lifetime earnings and limited occupational promotion of women. Above average unemployment rates of women, and reduced participation rates, result from the dual function of women as major provider of household work and supplementary market work.

The Scandinavian model, in contrast, is based on social rights of citizens. Sweden introduced in 1913 a basic-income system as a reaction against the German social security system<sup>17</sup>. The major argument was that persons should not derive social benefits and rights from work on the labour market (dependent upon the value of one's work on the labour market, i.e., labour as a commodity) or from family ties (dependent upon marriage) but rather that they should be entitled to have access to welfare on the basis of the rights of every individual as a citizen. Self-reliance and individual independence are the basic tenets of legislation. From this general social consensus flows the right of every individual to work in the labour market with full social security coverage. The linkage of individual taxation with a tax system with high marginal tax rates, is the inducement for the maximisation of family income if every family member engages in market work. This system was introduced towards the end of the 1960s and elaborated in the 1970s; it was the basis for the

---

<sup>17</sup> The German (Austrian) model was developed by conservative forces (Bismarck, Taaffe) to preserve the traditional class structure of society and to withdraw popular support for social-democratic reform proposals. For a detailed exposition of this argument see *Esping-Anderson* (1990).

development of the most comprehensive state welfare system, in which the public sector became the main provider of social services formerly (and in other systems still) provided by households, in particular care work. The public sector became the main source for the employment of women and allowed the rise of female labour force participation to almost male levels. A solidaristic wage policy assured that women were afforded comparable wages to those of men with similar education and training, which, in other systems, tend to carry lower wages for women. Recently, a certain disintegration of the Swedish model has taken place. The tax reform of 1989 set the scene for a certain convergence to the EU-tax-system, which has important consequences for the Swedish welfare system. While a major shift of family-oriented public services back to the household sector appears unfeasible, given the pronounced individualisation of the Swedish tax system, a widening of the wage gap between men and women is in the making. This is a result of the marked gender segmentation of work, where men are predominantly working in the well paying manufacturing and services sector of private industries and women in care-oriented public services. Wages in the private sector are backed up by the functional mechanisms of the market, while public sector services are financed by tax revenues.

### **The future welfare system?**

The interaction between social welfare and the economy is hard to capture in econometric models. The employment system and the welfare state are interconnected in more ways than one. The employability of the individual and the competitive stance of private enterprises depend upon the quality and the comprehensiveness of investment in human capital (education and training, health) and technical infrastructure. Infrastructure in the widest sense of the word is important for the sustainability of economic growth<sup>18</sup>. Part of social infrastructure is provided by the state, i.e., the public sector, and part by families. Employment in the public sector has to be, directly or indirectly, financed by the private sector. The higher the employment share of the private sector, the larger the tax revenues of the state and the smaller the need for transfer payments. The current changes in the nature of labour demand and supply, have no clear-cut directional effect upon the finance situation of the welfare state. While intermittent employment of male and female workers tends to put pressure on public finance in the short term (unemployment benefits) and long-term (retirement pay), increased employment of women tends to counter that development. However, the fact that the major share of female employment growth takes place in the public sector, i.e., in education, health and personal services, diminishes the positive effect on the state budget.

Reforms to the welfare system will be necessary, last but not least, as a result of the changing employment patterns of men due to increasing use of contract labour and retraining needs. Skill

---

<sup>18</sup> In the wake of rapid institutional change in the course of the 1980s and 1990s an explosion of research on public infrastructure and its role in economic growth and productive performance set in. The general conclusion is that infrastructure plays a vital role in securing the competitiveness and productivity of private sector firms (see *Morrison – Schwartz, 1996*).

formation and updating is already a prerequisite for improved labour market performance and sustainable economic growth. The successful institutionalisation of life-long learning, i.e., continued learning and competence development over the working life cycle, will, however, be decisive for the preservation of the adaptive capacity of the labour market to economic and technological change in a knowledge society. The organisation of continuous learning will not only have implications for educational and labour market institutions and mechanisms per se, but also for social insurance policy. So far, women tend to be more prone to intermittent employment than men, in the main as a result of childbearing and rearing. The different ways of organising social insurance for periods of absence from market employment, may serve as models for learning-phases, without falling into the trap of differentiating access by gender. Both, the system of financing social insurance as well as the distribution of social rights to individuals, can be expected to become more complex as a result of the flexibilisation of work and private life. The welfare state may have to be re-constructed to reflect the new needs and rights of society. Some form of minimum income provision, which allows the satisfaction of basic needs and protection against the vagaries of life (basic guaranteed income) may be called for. Earnings-related benefits would have to be considered in any system to preserve the existing status. Means-testing may also play a role in order to minimise costs. Funding of welfare through progressive general taxes may be necessary, complemented by negative income taxes to obtain the means for effective redistribution of income to the poor. The breadwinner/individual dichotomy of the social security model would have to be overcome. The individual model reduces the focus of choice between market and household work, while the patriarchal model does not promote equal status between men and women, and thus contributes to fluctuations in income of women. The household sector or specific duties which are important for the continuous labour supply of an economy, e.g., child care in the early years, may be envisaged as a provider of individual social security coverage, in addition to the public sector. Another possibility could be to phase out child benefits in favour of selective social assistance and tax relief on child care costs to promote labour market activity of the carer. One of the main conclusions of this paper is that the two sources of labour supply, in the market and the household, deserve equal consideration in the provision of social security.

The challenge lies in the details of the system design, which should ensure economic efficiency in the production of goods and services and equity between men and women. The overall objective should be to pursue economic efficiency and social justice in which the two goals are not in competition with each other, as is assumed in traditional neo-classical theory (*Okun, 1975*), but rather complementing each other. Both are important in their own right and are material factors in the overall wellbeing and political stability of the community in the long run. However, the thoughts expounded in this paper call for further research in order to gain better insight into the dynamics of labour supply and demand in the rapidly changing socio-economic setting of labour markets.

## References

Anker, R., *Gender and Jobs, Sex Segregation of Occupations in the World*. ILO, Geneva, 1998.



- Archer, M.S., *Culture and Agency: The Place of Culture in Social Theory*. Cambridge University Press, 1988.
- Arthur, W.B., *Increasing returns and path dependence in the economy*. The University of Michigan Press, 1994.
- Becker, G., *A Treatise on the Family*. Cambridge, MA: Harvard University Press, 1981.
- Biffi, G., *Towards a Social Reproduction Model*, *Transfer: European Review of Labour and Research*, 1996, 2(1), pp. 8-23.
- Biffi, G., *Equal Treatment of Men and Women (Gleichstellung von Mann und Frau)*, *Encyclopedia of Ethics in Economics (Lexikon der Wirtschaftsethik)*, Herder, Freiburg, Basel, Vienna, 1993, pp. 394-402.
- Biffi, G., *The Household Sector: the Economic Value of Unpaid Labour*, *Monthly Report of the Austrian Institute of Economic Research*, 1989, 62(9), pp. 567-576.
- Blanpain, R., *The Legal and Contractual Situation of Teleworkers in the EU*, *Consolidated Report to the EC*, 1997, WP/97/28/EN.
- Esping-Anderson, G., *The three Worlds of Welfare Capitalism*. Polity Press: Cambridge, 1990.
- Folbre, N., *Who Pays for the Kids? Gender and the Structures of Constraints*. Routledge, London and New York, 1994.
- Gustafsson, S., *Tax Regimes and Labour Market Performance*, *International Handbook of Labour Market Policy and Evaluation*, Eds. G. Schmid, J. O'Reilly, K. Schömann, Edward Elgar, Cheltenham & Brookfield, 1996, pp. 811-839.
- Gill, F., *Social Justice and the Low-Paid Worker*, *Australian Journal of Social Issues*, 25, 1990, pp. 83-102.
- Huhtanen, P., *The Health and Safety Issues for Teleworkers in the EU*, *Consolidated Report to the EU*, 1997, WP/97/29/EN.
- Ironmonger, D., *Counting Outputs, Capital Inputs and caring Labour: Estimating Gross Household Product*, *Feminist Economics*, 2(3), 1996, pp. 37-64.
- Juster, F.T., Stafford, F., *The Allocation of Time: Empirical Findings, Behavioural Models, and Problems of Measurement*, *Journal of Economic Literature*, XXIX, June 1991, pp. 471-522.
- Main, B., *Where 'Equal' Equals not Equal: Women in the Labour Market, Sex Equality: Law and Economics*. Hume Papers on Public Policy, 1(1), Edinburgh University Press, 1993.
- Mishan, E.J., *GNP – Measurement or Mirage?* *National Westminster Bank Quarterly Review*, November 1984.
- Morrison, C.J., Schwartz, A.E., *State Infrastructure and Productive Performance*, *American Economic Review*, December 1996, pp. 1095-1111.
- Okun, A.M., *Equality and Equity, The Big Trade-Off*. Washington, D.C., Brookings Institution, 1975.
- Paukert, L., *Personal Preference, Social Change or Economic Necessity? Why Women Work*, *Labour and Society*, 7(4), Geneva, 1982.
- Pennings, F., *The Social Security Position of Teleworkers in the EU*, *Consolidated Report to the EU*, 1997, WP/9727/EN.
- Pyatt, G., *Accounting for Time Use*, *Review of Income and Wealth*, 36, March 1990, pp. 33-52.
- Sainsbury, D. (Ed.), *Gendering Welfare States*, London: Sage 1994.
- Williams, R., Donath, S., *Simultaneous Uses of Time in Household Production*, *Review of Income and Wealth*, 40(4), December 1994, pp. 433-440.

© 2003 Österreichisches Institut für Wirtschaftsforschung

Medieninhaber (Verleger), Hersteller: Österreichisches Institut für Wirtschaftsforschung • Wien 3, Arsenal,  
Objekt 20 • A-1103 Wien, Postfach 91 • Tel. (43 1) 798 26 01-0 • Fax (43 1) 798 93 86 •  
<http://www.wifo.ac.at/> • Verlags- und Herstellungsort: Wien

Die Working Papers geben nicht notwendigerweise die Meinung des WIFO wieder

Verkaufspreis: EUR 8,00 • Download kostenlos:

[http://titan.wsr.ac.at/wifosite/wifosite.get\\_abstract\\_type?p\\_language=1&pubid=23432&pub\\_language=-1](http://titan.wsr.ac.at/wifosite/wifosite.get_abstract_type?p_language=1&pubid=23432&pub_language=-1)