

THE EQUALITY DILEMMA

The Lack of Female Entrepreneurs in Nordic Welfare States

NIMA SANANDAJI AND ELINA LEPOMÄKI

INTRODUCTION

One of the most important global trends of our time is that women are making progress in education, politics and business. The transition from an industrial towards a more service-based society, urbanization and increased opportunities for higher education are all societal changes that benefit women's career opportunities in particular. As researchers Michael Silverstein and Kate Sayre recently calculated, women's overall global revenue corresponded to 10 000 billion euros in 2009. That is more than twice the GDP of China and India combined. Women's earnings are expected to rise rapidly, to nearly 14 000 billion euros in 2014.¹ Since women take the majority of decisions regarding purchases in families, they control two-thirds of consumer power in the world. Companies that do not understand the female consumer demand risk falling behind quickly.²

There are signs that glass ceilings have already been broken, at least amongst young women in Anglo-Saxon nations. **In the US young single women have not only caught up with but also even surpassed their male counterparts in terms of median incomes.**³ In the UK the hourly wages of full-time workers aged 22 to 29 years is 2–3 per cent higher amongst the women than amongst the men.⁴ The Telegraph recently noted that the wages of young female executives aged 20 to 29 years in the UK is close to £30 000 per year, £600 more than the average earnings of men of the same age and position.⁵ In Finland, women between the ages 25 and 29 who work in the private sector earn 12 per cent less than men of the same age in the same sector.⁶



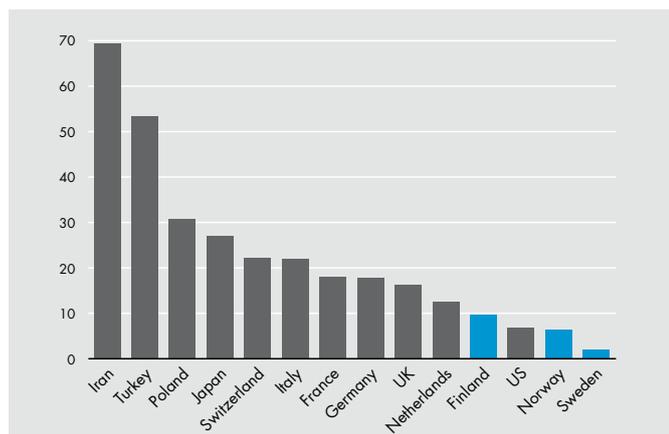
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Scandinavian nations have been, and continue to be, pioneers when it comes to gender equality. Women entered the labour market early and have succeeded on their own merits in reaching high political positions. In addition, Scandinavian nations have come a long way in gender equality in terms of attitudes. A global opinion survey asked the public if they thought that men should have more right to work than women where there was a lack of jobs. The three Scandinavian nations included in the study were, like the US, characterized by gender equal values.⁷

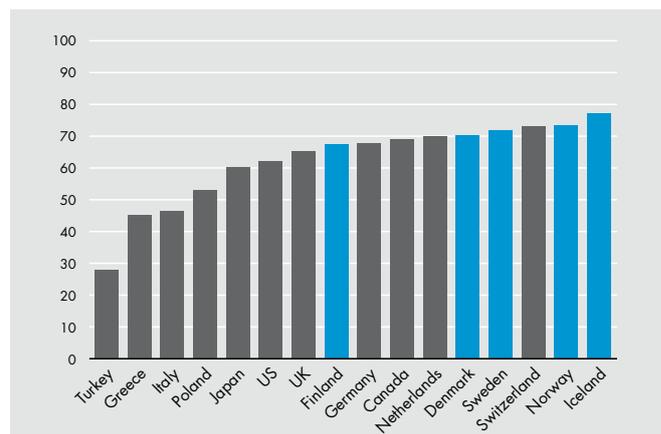
PERCENTAGE AGREEING WITH THE NOTION THAT MEN SHOULD BE GIVEN MORE RIGHT TO A JOB THAN WOMEN



Source: World Values Survey 2004–2008.

But Finland, Sweden, Denmark and Norway are not necessarily leaders if we look at the share of women who reach the top. The invisible hindrances, in terms of attitudes, to gender equality seem to be weaker in the Nordic countries. But, on the other hand, clearly visible hindrances – in terms of public sector monopolies, high tax wedges and the outline of social insurance systems – limit women’s career opportunities and enterprise.

EMPLOYMENT RATE OF WOMEN, %



Source: OECD database

WOMEN’S BUSINESSES AND NORDIC WELFARE STATES

Academics have long studied conditions that encourage the formation of new businesses as well as the growth of existing ventures. A question that has attracted particular attention is the conditions that stimulate women’s businesses. The short answer seems to be that the same basic conditions that affect men’s businesses also affect women’s businesses, but that there are differences in what factors are most important.

The entrepreneurship researchers Ingrid Verheul, André van Stel and Roy Thurik for example draw on data from the Global Entrepreneurship Monitor to examine factors that affect entrepreneurial activity amongst women in different countries. The authors note that “by and large – female and male entrepreneurial activity rates are influenced by the same factors and in the same direction”. Some differences, however, exist. For example, the authors find a positive relation between life satisfaction and entrepreneurial activity amongst women but not amongst men. Additionally, women tend to run smaller businesses than men and focus their business activities in the service sector.⁸

In Finland, 86 per cent of women’s businesses are in the sales and service sector, in contrast to 47% of men’s. Some 75 per cent of women’s businesses in Finland employ only one person. The number for male-owned businesses is less than 60 per cent.⁹

It is thus reasonable that women’s businesses are more affected by factors that are particularly important for smaller firms and

for service firms. Since service firms tend to be work intensive they are, for example, more affected by taxes on labour than manufacturing firms, which are more dependent on taxes and regulations which impact physical investments.¹⁰ For the same reason, the service sector, where many women work, is more affected by the direct costs and the uncertainty that rigid labour market regulations create.

A recent publication summarizes the research literature relating to women’s and men’s businesses. The study, written by Leora Klapper and Simon Parker, concludes that clear gender differences exist according to which segments of the economy firms are developed in. Women’s businesses tend to evolve within “labour intensive sectors such as trade and services rather than capital intensive manufacturing industries”. The authors note that improvements in the business climate can help women’s businesses thrive. For example, more efficient markets can help women business owners to attain the capital they need to expand.¹¹

One good metric of how well women actually succeed is the share of heads of businesses who are women. As shown below the Nordic countries are, perhaps somewhat surprisingly given their gender-equal reputation, characterized by having a relatively low share of female executives. A similar measure of women’s success in the private sector is the share of business owners who have at least one employee. The table below illustrates that Denmark and Sweden rank at the very bottom in comparison with other EU nations.¹² This situation has not

arisen due to chance but, rather, as a result of the economic policies in Nordic countries.

The emergence of a large public sector has historically played an important role in women’s entry into the labour market. One reason is that many women have found jobs in the public sector. Another is that public services such as childcare facilitate the combination of work and family life. But in the long run, women’s career success has been hampered by the fact that the labour market entry of women has been so intimately connected with public sector growth.

Economists Magnus Henrekson and Mikael Stenkula have written a scientific review with the telling title “Why are there so few female top executives in egalitarian welfare states?”. Through a comparison of Anglo-Saxon and Northern European countries the authors show that the Nordic nations are indeed gender equal in many ways. But Nordic societies also have a stronger under-representation of women in top positions than in Anglo-Saxon societies.¹³

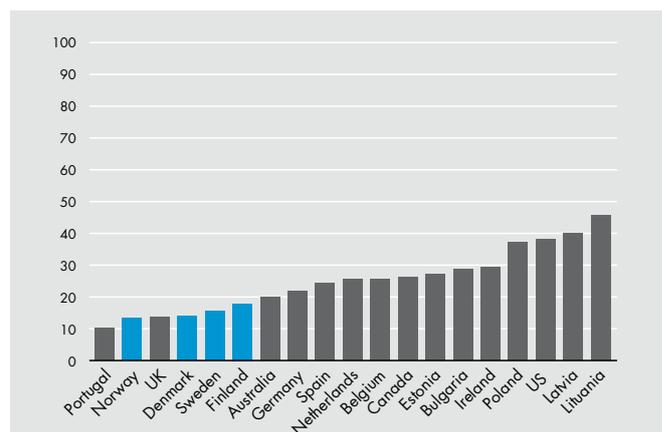
Sectors where many women work – such as health care, schools and the provision of elderly care – are in Nordic countries to a large degree embedded in public sector monopolies/oligopolies. This has led to a situation where women’s progress in the private sector has been stalled.

Already in 1998 the International Labour Organization published a report entitled Gender and Jobs: Sex Segregation of Occupations in the World. There it was noted that an unusually gender-segregated labour market had developed in Nordic countries, since many women worked in the public rather than the private sector. The report concluded: “in terms of differences amongst industrialized countries, several studies comment on how Nordic countries, and in particular Sweden, have among the greatest inequalities”.¹⁴ The same situation, unfortunately, still exists today. In Finland, the segregation of men’s and women’s sectors is especially noteworthy: **A recent study found that there are only three EU countries where the split into female and male sectors is stronger than in Finland** (all Eastern European countries: Slovakia, Estonia and Latvia).¹⁵

PUBLIC SECTOR MONOPOLIES LIMIT WOMEN’S OPPORTUNITIES

Individuals tend to start businesses in the sectors in which they have previous experience. In Finland, for example, women make up 41 per cent of the self-employed in the service sector, compared to only 12 per cent of the self-employed in manufacturing and construction. This does not come as a surprise, since women only constitute some 117 000 of the total 560 000 who work in manufacturing and construction but fully 1 032 000 out of the 1 762 000 who work in services, including public services.¹⁶ Naturally, policies that create opportunities for entrepreneurship in the service sector will affect women’s entrepreneurship more strongly than policies that affect the manufacturing sector.

HEADS OF BUSINESSES WHO ARE WOMEN, %



Sources: Eurostat (2008), New Zealand’s government (2006), Statistics Canada and US Department of Labor. Data for all countries are given for 2008, except Australia (2006).

SHARE OF WOMEN AMONGST BUSINESS OWNERS WITH AT LEAST ONE EMPLOYEE IN 2012, %

Latvia	33.8
Portugal	32.3
Croatia	32.1
Poland	30.3
Spain	29.3
Bulgaria	29.2
Lithuania	28.5
Romania	28.3
Hungary	27.6
Slovenia	27.3
Former Yugoslav Republic of Macedonia	27.1
Slovakia	27.0
Luxembourg	26.7
Norway	26.1
United Kingdom	25.9
EU average	25.7
Iceland	24.9
Netherlands	24.8
France	24.7
Austria	24.6
Germany	24.4
Switzerland	24.3
Italy	24.2
Greece	23.5
Finland	23.4
Ireland	23.3
Belgium	23.2
Czech Republic	22.4
Sweden	21.6
Denmark	21.3
Estonia	21.0
Cyprus	33.8
Turkey	32.3

Source: Eurostat database. Own calculations, based on the first three quarters of 2012.

In particular the outline of public services affects women’s careers. As The Economist noted recently, although women in Finland, Sweden and Denmark “make up roughly half the labour force, their share in public-sector employment is a remarkable 70 per cent”.¹⁷ This situation creates clear obstacles for women’s progress in business. Although opportunities for private enterprises in welfare sectors have gradually been opened up in parts of the Nordic countries, the public sectors to a large degree are run as public monopolies or at least oligopolies.

Long-term development in terms of efficiency is sluggish in the public sector, and competition for workers is limited. Both factors depress women’s wages. Public sector jobs are characterized by high levels of health-related absence from work, although employees on average work fewer hours compared to in the private sector. Wages are typically compressed, which limits the career gains possible through hard work. The opportunities for career development are thus limited. So is also the possibility to go from employment to self-employment. **One consequence of public sector monopolies, where flat wage structures are preferred by large unions when bargaining, is that higher education amongst employees is not necessarily rewarded.**¹⁸

Reform experience shows that increased competition within the public sector can enhance women’s career opportunities. During recent years, the Swedish system has increasingly opened up for private firms to provide welfare services. We can note that this has, in particular, given a boost to women’s self-employment. Amongst the new firms that were formed in education between 2009 and 2010 fully 50 per cent were run by women. An additional 6 per cent were run by both women and men in executive positions.¹⁹

Amongst the firms formed in health and caring services during the same time 58 per cent were run by women and 11 per cent were run by both men and women in executive positions. Since public sector dominance still remains in Sweden, only 7 per cent of the newly formed businesses were founded within health, caring and education. However, 11 per cent of the companies headed by at least one woman were founded in these fields. An even more impressive 15 per cent of the total new employment opportunities for women were formed in these ventures.²⁰

An important lesson from Sweden is that private competition in welfare services can boost business ownership and job growth in the female dominated public sector. It can also strengthen career opportunities for those who are already employed by the public sector.

A report has looked at the income development for individuals who were public employees in Sweden and in 2002 experienced a privatization of their workplaces. The authors compare the wage development for these individuals to those who continued to work for the public sector. It is shown that the wage increase was 5 percentage points higher for those whose work places were privatized. Also, the latter group had a greater chance of being in employment in 2006 compared

to those whose work places had remained under public sector management.²¹

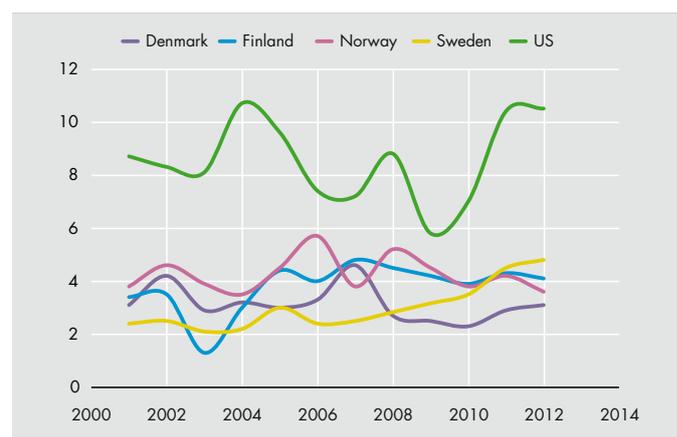
The advantages that competition within the public sector creates for women illustrate the need for change. Another perspective, which is worth mentioning, is that the introduction of competition for the provision of publicly funded services such as health care, elderly care and education – whilst boosting women’s self-employment and career opportunities – is not enough to stimulate women’s entrepreneurship. Entrepreneurship is a unique and unusual form of running a business, characterized by innovation, high risk and high reward.

International experience shows that entrepreneurship can indeed create great benefits in sectors such as health care, but that regulation and lack of competition can stifle this form of innovative business.²² When private businesses are allowed within the frame of public funding in European countries, they are often still regulated heavily by the public sector through detailed contracts and legislation. Also, the funding systems, typically, do not reward efficiency in the same way as the market. For example, service providers who have private customers can raise their rates when the quality of their services increases. Public sectors, however, do usually not pay service providers for quality, but rather mostly or only for quantity.

The flexibility and the upside for efficiency that is required for entrepreneurial ventures are thus often lacking for private firms operating within the scope of public funding. The focus of Nordic policy should thus not only be to increase opportunities for new and growing businesses within the publicly funded sector, but also to allow for these ventures to be entrepreneurial.

It is difficult to quantify entrepreneurship. The Global Entrepreneurship Monitor attempts to do so, by looking at measures such as early stage entrepreneurial activity. As shown below, this rate has during later years consistently been lower in the Nordic countries compared to the US. Clearly, gender-equal Nordic nations could benefit from policy changes that would allow for more entrepreneurship amongst women.

TOTAL EARLY-STAGE ENTREPRENEURIAL ACTIVITY FOR FEMALE WORKING AGE POPULATION, %



THE NEED FOR POLICY CHANGE

The Nordic nations are not only unique in having large public sector monopolies, but also high taxes and (excluding Denmark) rigid labour market regulations. These policies limit economic development in general, but particularly for the service sector, which is dependent mainly on human capital. A good illustration of the effect of taxes is that one person opts to work a few hours more in her or his workplace in order to buy services such as cleaning the home from another person.

The first person must pay around half of her or his extra income in employer's fees and direct work taxes in Nordic economies. VAT must be paid when the service is purchased, and the second person must also pay half of the remaining money in various taxes on income. All in all, around 80 per cent of the original sum goes to tax treasuries, or even a higher share if one or both individuals have higher incomes.

It is thus clear that the high-tax systems limit transactions in the private service sector. The relevance to women's career opportunities is threefold. Firstly, development is stalled in the service sector, where many women work. Secondly, household-related services such as child-care, home delivery of food and cleaning allow families to "buy time" in order to be able to work more hours. Thirdly, the opportunities for women entrepreneurs are hindered.

To summarize one could thus say that the sectors in Scandinavian nations where the share of women workers is the highest, i.e. the public sectors, have the greatest hindrances to career success. The sectors where the share of women workers is second highest are private sector services. These are also impeded by the unique characteristics of economic policies in Nordic countries, in this case high taxes and extensive labour regulations. The last sector, private manufacturing, is strongly dominated by men and is

least affected negatively by the economic policies characteristic of Nordic welfare states.

There is also another aspect of Nordic policies that in particular affect women's enterprise, regardless of which sector the enterprises operate within. This aspect is the outline of social insurance systems. International studies show that social insurance systems can play an important role as incentivisation to start businesses in general, and in particular for women. The Nordic nations have built comprehensive social insurance systems, financed through the tax systems, which are better suited for the employed than the self-employed.

As international research shows, the availability of insurance systems is more important for women than men.²³ Reforms that increase the opportunities for women to gain, for example, health insurance affect the share of businesses run by women. Based on natural experience it can be shown that such reforms lead to a significantly higher share of self-employment amongst women.²⁴ It is difficult for public systems to address the individual needs of business-owners, not least since they are a very heterogeneous group.

Private insurance aimed at the self-employed already exists in Nordic countries. The problem is that self-employed individuals who sign up for private insurance must pay for this as a complement to public insurance financed through taxes. A good idea would, therefore, be to enable the self-employed to opt out of public systems by paying for private insurance, receiving a tax-deduction when doing so.²⁵

Clearly reforms to the Nordic welfare states, including tax-reforms, labour market reforms, social insurance reforms and more private competition in provision of publicly financed services, could, in particular, benefit women's career opportunities. Much of the debate relating to women's career opportunities in Nordic nations relates to "invisible barriers". But what about the fully visible political barriers that limit opportunities in the sectors where most women work?

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NOTES

- 1 Silverstein and Sayre (2009a). Own calculation from dollars to euros.
- 2 Silverstein and Sayre (2009b); Dutta and Harris (2010).
- 3 Gotham Gazette (2007); Time (2010); Wall Street Journal (2010); NECN Business (2012).
- 4 Office for National Statistics (2012).
- 5 The Telegraph (2011).
- 6 Statistics Finland (2012).
- 7 World Values Survey 2004–2008.
- 8 Verheul van Stel and Thurik (2005).
- 9 Ministry of Employment and the Economy (2012).
- 10 Davis och Henrekson (2004).
- 11 Klapper och Parker (2011).
- 12 Eurostats database.
- 13 Henrekson and Stenkula (2009).
- 14 Anker (1998).
- 15 Elinkeinoelämän keskusliitto (2013)
- 16 Statistics Finland (2011). In both sectors, women’s rate of self-employment is lower than their share of the employees.
- 17 The Economist (2011).
- 18 Swedish Agency for Economic and Regional Growth. Own calculations.
- 19 Ibid.
- 20 OECD (2009); Sanandaji (2013).
- 21 Kreicbergs and Oreland (2009).
- 22 See for example Saltman, Busse och Mossialos (ed.) (2002); Guo (2006); Phillips och Garman (2006).
- 23 See for example Ilmakunnas and Kanniainen (2001); Wellington (2001); Audretsch et.al. (2002).
- 24 Velamuri (2008); Chang (2010).
- 25 Such an option could of course also be offered to employees.

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