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Fiscal Policy Instruments for Inclusive Labor Markets: A Review

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ABSTRACT

This paper critically reviews fiscal policy instruments—including active labor market policies, social protection measures, care policies, and tax reforms—focusing on their differentiated impacts on underrepresented groups and their potential to foster labor market inclusivity. Our review reveals that empirical studies often overemphasize the capacity of individual policies to mitigate inequalities, neglecting the complex interdependencies among various mechanisms and policies. Instead, we argue for a systematic approach to ensure equitable access to good jobs and address disparities across labor market groups. Although sector-specific training and reskilling are essential, their effects often take time to materialize, highlighting the necessity of complementary labor demand measures, such as public works schemes, and employment subsidies, to address immediate challenges and promote inclusive growth. Care policies remain central to improving female labor market participation by alleviating their unpaid care burdens. The review also identifies critical research gaps, including the need for longitudinal studies on long-term policy impacts, an exploration of regional disparities in labor market inequalities, and sector-specific effects of fiscal measures.

JEL Classification: E6, H2, H3, H5, J1, J2

1 | Introduction

The COVID-19 pandemic triggered a renewed interest in fiscal policy as a means to address the deteriorating conditions and deepening inequalities in the labor markets around the world. The crisis disproportionately affected less resilient and vulnerable workers, including those in informal and precarious employment, low-skilled workers and women, especially in developing countries (Cetrulo et al. 2022; ILO 2022; Power 2020). In response to this unprecedented economic shock, governments implemented fiscal measures of extraordinary scale,[1] ranging from employment retention schemes to extended unemployment benefits (IMF 2021), with around 80% of countries introducing at least one active labor market policy (Gentilini et al. 2021). The crisis also prompted a radical shift in dominant policy discourse, acknowledging the need to relax budget constraints. The EU is a case in point, with the suspension of its Stability and Growth Pact budgetary rules, enabling member states to launch an unparalleled fiscal response to the crisis's impacts.

Traditionally, macroeconomic research has assessed fiscal policy effectiveness by estimating fiscal multipliers (see Gechert 2015 for a comprehensive review), often treating employment outcomes as secondary effects of output responses. As a result, limited attention has been paid to whether fiscal stimuli create jobs where they are most needed—for contracting regions, vulnerable occupations, or underrepresented groups (Akitoby, Honda, and Miyamoto 2022). Yet, fiscal policy is far from neutral; its impacts are likely to vary across workers according to their income, skills, age, and gender, as evidenced by a substantial body of empirical microeconomic literature (Card, Kluve, and Weber 2018; Ernst, Merola, and Reljic 2022; Escudero 2018).

Understanding these differentiated impacts is particularly pertinent today. Structural changes such as technological advancements, the green transition, and demographic shifts threaten to exacerbate labor market inequalities, placing disproportionate burdens on certain groups—for instance, low-skilled workers compared to high-skilled ones or women compared to men (Causa et al. 2024; OECD 2024). This paper critically reviews the role of fiscal policy instruments in promoting labor market inclusivity. An inclusive labor market ensures equitable access to employment for all, thereby unlocking untapped potential, regardless of gender, age, skill level, or other socio-demographic factors (El-Ganainy et al. 2021). Accordingly, we take stock of the empirical studies that estimated differentiated impacts of fiscal policy instruments to identify what works and for whom.

Fiscal policy instruments—including active labor market policies (ALMPs), social transfers, and tax measures—influence labor market inclusivity through several key channels.

First, they reduce mismatches in the labor market. ALMPs, such as public employment services (PES), address market failures caused by imperfect information by improving job-matching and addressing skill gaps, thereby enhancing employment opportunities for long-term unemployed individuals and low-skilled workers (Abebe et al. 2021; Alfonsi, Namubiru, and Spaziani 2022).

Second, they stimulate labor demand through public-sector-led job creation initiatives like job guarantees (JGs) and public works schemes (PWS), employment retention schemes that preserve existing jobs, and targeted hiring subsidies or tax reductions that incentivize firms to hire underrepresented groups such as older workers, women, and individuals with disabilities (Tcherneva 2020).

Third, fiscal policies address supply-side structural barriers. Activation measures, including start-up incentives and in-work benefits, reintegrate long-term unemployed and inactive individuals into the labor market, while care policies reduce caregiving burdens that disproportionately limit women's participation (Reljic and Zezza 2025).

Fourth, taxes and social transfers primarily aim to redistribute income toward low-income households—such as through conditional and unconditional cash transfers (CCTs and UCTs, respectively)—and to provide income support across the lifecycle (Boeri and van Ours 2008). These measures offer critical protection against adverse economic shocks, such as unemployment, and idiosyncratic events, like disability. Beyond their redistributive objectives, taxes and transfers can significantly influence labor market outcomes by shaping labor supply behaviors (Causa and Hermansen 2020). The standard economic model suggests that transfers, despite their redistributive benefits, may create work disincentives by encouraging recipients to allocate more time to leisure than to labor (Moffitt 2002). This tendency is particularly pronounced in the case of overly generous schemes, highlighting the trade-offs inherent in policy design. However, these objectives are not necessarily in conflict. In-work benefits serve as a notable example of how a single policy instrument can simultaneously provide income support and reinforce labor market attachment among low-income workers, illustrating the interplay between redistributive and behavioral effects of fiscal policy. Moreover, social transfers such as childcare support grants can enhance labor force participation by reducing work-related costs, particularly for women (Reljic and Zezza 2025). Additionally, transfers that include conditions, such as training enrolment requirements, can foster skill formation or strengthen incentives to enter formal employment, generating long-term positive effects on labor market outcomes (Ernst 2015).

By targeting disadvantaged groups—such as women, youth, seniors, low-skilled workers, and the long-term unemployed—fiscal policies can promote inclusivity. Even untargeted measures, such as care policies, can indirectly benefit women with children by addressing systemic inequalities in access and workforce participation. Similarly, progressive tax reforms, which lower tax rates for lower-income levels, encourage participation among low-skilled workers and women, who are overrepresented in low-income brackets. However, joint (household-based) taxation systems may unintentionally discourage secondary earners, often women, from entering the workforce. These examples highlight the behavioral and redistributive trade-offs that policymakers must navigate to balance equity and efficiency (Causa and Hermansen 2020).

This review underlines the need for a holistic approach that integrates labor market inequality considerations into fiscal policy design and evaluation. In line with Sustainable Development Goal 8 of the UN 2030 Agenda, we argue that fiscal policies should be assessed not only for their ability to create jobs but also for their capacity to promote full, productive, and equitable employment. Inclusivity is not merely an ethical imperative; it is an economic necessity (Bertrand 2020; Ostry et al. 2018).

Our review is necessarily selective, focusing on the uneven impact of fiscal policy across different groups of workers and prioritizing more recent empirical evidence. Importantly, the scope extends beyond developed countries to include, where available, some insights from developing economies. Although we emphasize the critical role of fiscal measures in this paper, we acknowledge that they are not sufficient on their own to achieve labor market equality. Inclusivity requires a broader policy mix, incorporating education, anti-discrimination initiatives, and measures to enhance workers' bargaining power.

In the following sections, we review the impact of various fiscal instruments. Section 2 examines the role of active labor market policies, focusing on their capacity to address labor market disparities; Section 3 discusses social protection measures, including unemployment insurance (UI), old-age pensions, disability benefits, and cash transfers, highlighting their role in reducing inequalities and supporting vulnerable groups; Section 4 reviews care policies, such as parental leave and childcare, as tools for addressing gender inequalities; Section 5 reviews tax reforms, particularly their capacity to foster more equitable labor market outcomes; Section 6 concludes with suggestions for future research.

2 | Active Labor Market Programs

2.1 | Public Works Programs

PWS and JGs are labor market interventions where governments act as an "employer of last resort," stepping in when the private sector fails to generate adequate employment opportunities. PWS are generally short-term and project-specific, while JGs are conceptualized as permanent, universal policies designed to guarantee employment to all individuals willing to work (Minsky 1965). Despite these theoretical distinctions, the two often converge in practice, as both aim to address involuntary unemployment and inactivity through direct job creation. By providing work where and when needed, these interventions serve as buffers against adverse shocks, such as economic crises or weather-related disruptions, distinguishing them from supply-side approaches (Subbarao et al. 2012).

These programs are instrumental in reducing poverty and labor market inequalities. They provide decent wages and universal access to employment, mitigating underemployment and addressing labor market segmentation. Marginalized groups, including persons with disabilities, informal and low-skilled workers, youths, and women, stand to benefit most, fostering greater inclusivity (Haim 2021; Paul et al. 2018).

When implemented at a sufficiently large scale, PWS and JGs can yield considerable aggregate effects by stimulating private-sector activity through increased consumption, by smoothing disposable incomes during economic downturns (i.e., acting as automatic stabilizers) and strengthening workers' bargaining power (Muralidharan, Niehaus, and Sukhtankar 2018). Beyond their economic impact, these programs contribute to broader developmental goals such as creating public goods and services (Tcherneva 2020), improving infrastructure, and enhancing territorial cohesion (Huang 2022). Additionally, they play a vital role in reintegrating disadvantaged groups into the workforce and promoting social inclusion (Kasy and Lehner 2023).

Although public employment programs offer many potential benefits, critics raise concerns about their drawbacks. These include substituting unemployment with underemployment, crowding out private-sector jobs, and issues of fiscal sustainability (Imbert and Papp 2015). Poorly designed schemes may offer low-quality, dead-end jobs (Mitchell and Wray 2005).

India's National Rural Employment Guarantee Scheme (NREGS), launched in 2005, is one of the largest and most studied JG schemes globally. It guarantees up to 100 days of employment annually for rural households during the agricultural off-season. By 2022, the scheme reached 62 million households—nearly 30% of rural Indian households—and served as a safety net for 76 million households during the pandemic (Narayan 2022). NREGS has increased labor force participation, employment, and wages (Berg et al. 2014; Muralidharan, Niehaus, and Sukhtankar 2018), particularly among women (Azam 2012) and unskilled workers (Imbert and Papp 2015). The program's gender quota, mandating at least one-third female participation, and its equal pay provision have reduced gender disparities in rural India (Rodriguez 2022). However, challenges such as delayed payments and low wages persist, discouraging participation. Narayan (2022) calls for program expansion, including doubling the guaranteed workdays and extending coverage to urban areas.

In Africa, Ethiopia's Productive Safety Net Program (PSNP), launched in 2005, is one of the largest social protection initiatives. Targeting the poorest rural households, the PSNP has significantly reduced poverty, food insecurity, and income inequality (Gilligan, Hoddinott, and Seyoum Taffesse 2009; Berhane et al. 2011), though it has struggled to reach underserved remote regions (Sabates-Wheeler and Devereux 2010). Although the program improved gender inclusiveness by creating economic opportunities for women (Devereux and Guenther 2009), social norms constrained women's ability to fully benefit (Jones, Tafere, and Woldehanna 2010). Its urban counterpart, the UPSNP—albeit relatively under-researched—has shown notable success by offering up to 240 days of employment annually at wages higher than those typically paid in the private sector. This initiative significantly reduced poverty among participants, predominantly female household heads, and raised wages by 19% in nearby private sectors, benefiting non-participants as well (Franklin et al. 2024).

In Latin America, Argentina's Plan Jefes provides another example of how direct job creation can address poverty and gender disparities. At its peak, the program engaged close to 2 million individuals, representing 5% of Argentina's population and 13% of its workforce (Tcherneva 2013). Although it improved living conditions for impoverished households, particularly women, the modest wages it pays limited its impact on poverty reduction (Garzón de la Roza 2006).

Evaluations of other Latin American PWSs have produced mixed results. For instance, Uruguay's workfare program (*Trabajo por Uruguay)*, combining income support with activation measures, showed negligible effects on employment and job quality, partly due to its limited duration (Escudero et al. 2018; Escudero, López Mourelo, and Pignatti 2020). Amarante et al. (2011) even find an adverse impact on employment and wages, especially among men. In Colombia, Empleos en Acción increased female earnings, while Peru's Construyendo Perú improved labor force participation and employment for women and low-skilled workers, though participants often remained in low-quality jobs (Escudero 2016).

Although PWS and JGs are more prevalent in developing and emerging countries, such initiatives have also been experimented in advanced countries as tools for addressing long-term unemployment. Finland's Paltamo experiment reduced local unemployment by nearly 10 percentage points within 2 years by directly creating jobs (Hamalainen and Hamalainen 2012). However, concerns about fiscal sustainability prevented its scaling to the national level (Alaja and Kajanoja 2017). Similarly, Austria's pilot JG program[2] significantly reduced unemployment, increased income security, and promoted social inclusion, highlighting the potential for such initiatives in developed contexts (Kasy and Lehner 2023). The Kinofelis program in Greece aimed to support long-term unemployed individuals, older workers, and those with medium or lower skill levels by offering 8 months of employment. Although it successfully targeted marginalized groups, it faced challenges, including persistent gender disparities in participation (ILO 2018). Furthermore, the program's limited duration posed significant difficulties, as Greece's economy has struggled to re-absorb participants once their temporary employment ended (Langa et al. 2019).

The success of public employment programs depends on country-specific conditions and careful design. Although these programs have proven effective in advanced economies, they are relatively rare and typically implemented on a small scale, often confined to local initiatives in towns or municipalities. Simulation studies, primarily focusing on advanced economies, estimate the ex-ante potential impact of such programs at a larger-scale, suggests they could significantly reduce involuntary unemployment, alleviate poverty, improve infrastructure, and stimulate private sector activity through increased consumption—all at a manageable fiscal cost of 1.5%–2.5% of GDP (Landwehr 2020; Mayerhofer 2023; Paul et al. 2018). Moreover, examples such as China's Green JG (Huang 2022) and the US study (Bergquist, Mildenberger, and Stokes 2020) demonstrate the potential for aligning employment policies with broader climate objectives. However, a notable limitation of simulation studies is their predominant focus on aggregate outcomes, with limited attention to the potentially heterogeneous effects across sociodemographic groups. Nevertheless, some evidence indicates that public employment programs can foster inclusive labor markets, particularly benefiting individuals with limited skills (Haim 2021; Landwehr 2020).

2.2 | PES

PES aim to reduce mismatches between labor demand and supply by offering job-search assistance, which enhances the quality of job matches by aligning jobseekers' profiles with available vacancies (Abebe et al. 2021, 2023). This intermediary role facilitates the adaptation of jobseekers' skills to local labor market needs while boosting firm productivity through improved matching efficiency (Boeri and van Ours 2008). Additionally, PES provides counseling and monitoring services to counteract potential work disincentives associated with generous passive labor market policies and to facilitate the reintegration of welfare beneficiaries into the workforce (Blundell et al. 2004). Consequently, PES plays a crucial role in fostering more inclusive labor markets.

Despite these benefits, PES effectiveness can be undermined by deadweight costs—when assistance is provided to individuals who would have found employment without support. Another concern is "cream-skimming," where placement agents prioritize individuals with higher employability (e.g., highly skilled job seekers) over hard-to-place unemployed persons (Crépon et al. 2013). These practices limit PES's capacity to integrate the long-term unemployed and those with lower skill levels into the labor market.

Nonetheless, PES frequently targets disadvantaged groups like women, informal workers, low-skilled individuals, and youth. Nearly 80% of PES worldwide have adopted gender equality policies, a trend evident across regions and income levels (ILO 2023). By addressing barriers to labor market participation, PES also promotes formalization, particularly in developing countries with high rates of informality. For instance, Pignatti (2016) shows how PES participation in Colombia increases the likelihood of formal employment, primarily through placements in larger firms.

Recent experimental evidence from developing and emerging economies highlights the transformative potential of "enhanced" matching support—such as mentorship, job application workshops, and transport subsidies—in overcoming barriers to employment access (Abebe et al. 2021). These interventions are particularly beneficial for disadvantaged jobseekers, including youth, women, and less skilled individuals, fostering greater inclusivity in labor markets (Abebe et al. 2023). In Uganda, for instance, mentorship programs have improved short-term employment outcomes by helping young jobseekers align their expectations with actual job opportunities and wages (Alfonsi, Namubiru, and Spaziani 2022). Similarly, in South Africa, incorporating job plan-making into standard counseling sessions has been shown to increase employment probabilities (Abel et al. 2019). Evidence from Ethiopia further supports these findings, with job application workshops significantly increasing the likelihood of securing formal employment by reducing job search costs, improving labor mobility, and aligning workers' skills with employer needs (Abebe et al. 2023). However, the long-term effectiveness of these interventions may be limited in contexts characterized by low firm demand, poor job quality, or persistent structural labor market challenges (Carranza and McKenzie 2024).

A notable example from France demonstrates some limitations of PES interventions. Crépon et al. (2013) evaluate job-counseling programs targeting young jobseekers and find that while the treatment group experienced positive employment effects, these gains were offset by displacement effects for untreated jobseekers, resulting in negligible net employment gains. Displacement effects were exacerbated during periods of labor market slack, reflecting heightened competition for jobs. Additionally, the study finds that fixed-term jobs obtained through counseling often fail to act as effective "stepping-stones" to stable employment, as employment effects disappear after 1 year.

Complementarities between PES and other labor market policies can enhance their effectiveness. Blundell et al. (2004) show that the United Kingdom's New Deal for the Young Unemployed, which integrated job-search assistance, wage subsidies, training, and temporary government jobs, increased employment chances by five percentage points, with job-search assistance contributing one-fifth of the improvement. Although the program's long-term effects were not assessed, it demonstrated significant short-term success. Similarly, Kluve et al. (2019) emphasize that the effectiveness of youth-targeted programs depends more on their design and the integration of multiple measures than on the specific type of intervention.

2.3 | Training Programs

Government-sponsored training programs are intended to enhance beneficiaries' employment prospects by providing them with either general or specific training through which they can acquire new technical and soft skills. In turn, this skill upgrading promotes the reintegration of inactive and unemployed persons into the labor market and helps their career advancement, possibly leading to higher post-unemployment earnings (Brown and Koettl 2015).

Training schemes can even compensate for the lack of formal education, particularly for low-wage and low-skill workers, providing a stepping-stone to better-paid jobs. Evidence from four randomized control trials (Katz et al. 2020), demonstrates that sector-specific training programs can generate persistent improvements in earnings. These programs are tailored to train and place jobseekers in high-quality jobs in sectors such as IT and manufacturing, which exhibit strong local labor demand and offer higher wages. By carefully screening, selecting, and training participants to meet local market needs, these programs provide individuals with in-demand skills, facilitating smoother transitions into higher-paying sectors.

Youth and first-time jobseekers often face significant barriers to entering the labor market[3] due to a lack of experience, particularly in contexts where school-to-work transitions are weak—a situation exacerbated during economic recessions (Schoon and Bynner 2019). Targeted training, including on-the-job programs, can mitigate these barriers and enhance youth employability, leading to a more inclusive labor market.

However, the empirical evidence is all but conclusive. In Latin America, training initiatives have contributed to making labor markets more inclusive. Specifically, several studies report a positive impact on employment, earnings, and the probability of formal employment, particularly for women and youth (Escudero et al. 2018; Kluve et al. 2019). Conversely, research on the impact of training on youth employment in Europe presents a more complex picture: some programs have improved earnings, while others have yielded mixed or negative results (Kluve 2010).

A recent meta-analysis by the ILO (2023) supports these findings, indicating that reskilling interventions in high-income countries have significant but highly variable effects on youth earnings and employment outcomes. For example, positive impacts are observed in France and Germany, while Austria and Denmark report insignificant effects, and Norway and Sweden show negative outcomes (Caliendo and Schmidl 2016). These variations highlight the context-dependent nature of training programs and their differential impacts on youth employment outcomes even within Europe.

2.4 | Employment Subsidies

Employment subsidies are financial incentives provided to firms, aimed at reducing unemployment and improving employment prospects for disadvantaged groups who face significant barriers in the labor market (e.g., the long-term unemployed, low-skilled workers, and youth). By stimulating labor demand, these subsidies serve as market-correcting mechanisms that address inefficiencies, such as firms' reluctance to hire workers perceived as less productive or inexperienced like those with lower levels of skills or youth (Boeri and van Ours 2008). In this way, employment subsidies can make labor markets more inclusive.

Subsidized employment can also yield additional benefits through a screening effect and skill formation. Subsidies allow firms to assess workers' productivity in labor markets characterized by asymmetric information, potentially leading to longer-term employment. Additionally, workers may preserve or upgrade their skills during subsidized employment through "learning-by-doing," thereby improving their future employability (Brown and Koettl 2015).

These subsidies can be broadly categorized into two types: wage subsidies, which aim to retain existing employees or broadly incentivize employment within specific sectors or regions, and hiring subsidies, which focus on new hires, encouraging firms to expand their workforce. Brown (2015) highlights some distinctions between the two: wage subsidies often incur higher deadweight costs (i.e., subsidizing jobs that would have existed without intervention), as they typically target broad groups of workers. Hiring subsidies, while aimed at creating new jobs, may result in a revolving-door effect, where subsidized workers are replaced by other subsidized hires, leading to job turnover without net employment growth. Although wage subsidies are costlier due to their broader scope and longer durations—or even permanent—successful implementation can offset these costs through increased tax revenues and reduced reliance on unemployment benefits.

Unlike training programs, which tend to be more effective when targeted at specific groups (Kluve et al. 2019), most of the empirical evidence suggests that targeted employment subsidies are often ineffective and can even be stigmatizing (Boockmann 2015). Huttunen, Pirttilä, and Uusitalo (2013) find no significant differences in employment or wages between subsidy-eligible older workers and the control group in Finland, although the policy did marginally increase full-time employment by converting part-time roles. Similarly, Jiménez-Martín, Juanmartí Mestres, and Vall Castelló (2019) show that hiring subsidies for disabled individuals in Spain (1990–2014) had minimal impact on their employment prospects, while Baert (2016) found that disclosing wage subsidy eligibility in job applications, reduced the likelihood of positive responses for disabled candidates by nearly 50%, reflecting enduring disparities in the Flemish labor market.

Evidence on the effectiveness of youth-targeted wage subsidies is somewhat mixed. Although subsidies may provide an initial boost, their effects are often short-lived (Caliendo and Schmidl 2016; ILO 2023). A case in point is a pilot program in Jordan offering financial support equivalent to the minimum wage for 6 months improved short-term employment for female graduates, but the gains were only temporary (Groh et al. 2016). Similarly, hiring subsidies for long-term unemployed individuals often yield transitory benefits, improving employment probabilities without fostering sustained labor market integration (Desiere and Cockx 2022). These findings challenge the premise that subsidized employment serves as a bridge to long-term employment opportunities. However, notable exceptions exist: in Latin America, employment subsidies have proven effective in generating employment (*Proempleo* and *REPRO* in Argentina) and countering informality (*Subsidio al Empleo Joven* in Chile) (Escudero et al. 2018).

Another critical policy tool focuses on preserving jobs during periods of economic instability. Employment retention schemes, also known as short-time work schemes (STW), represent a specific form of wage subsidy designed to preserve jobs when firms face temporary reductions in demand. By retaining employees, even temporarily, these schemes prevent skill erosion and stabilize consumption, thereby supporting aggregate demand (Ernst, Merola, and Reljic 2022). Although STW schemes are effective in stabilizing employment, they may also delay necessary structural adjustments by preserving jobs in less productive sectors (European Commission 2020). STW were widely adopted during the 2008 financial crisis and the COVID-19 pandemic (Drahokoupil and Müller 2021). Countries such as Germany (Kurzarbeit), Italy (Cassa integrazione), and the United Kingdom (furlough scheme) relied heavily on such schemes, significantly preventing job losses and stabilizing household incomes (IMF 2021).

Evaluations of STW have predominantly focused on their impact on job retention, hours worked and firm survival (see Brey and Hertweck 2020; Cahuc 2019; Giupponi and Landais 2018; Kopp and Siegenthaler 2021, among others), without paying attention to possibly heterogeneous effects across different sociodemographic groups. An exception is the study by Adams-Prassl et al. (2020), which analyzed the furloughing practices during the pandemic in the United Kingdom. The study finds that women, particularly mothers, were more likely to be furloughed than men, primarily due to caregiving responsibilities. Moreover, women and low-income workers were less likely to receive wage top-ups from employers beyond the government's 80% subsidy. These findings emphasize the need to incorporate labor market inequality dimension into the design of these policies to ensure that recovery efforts do not exacerbate existing disparities.

2.5 | In-Work Benefits

In-work benefits, unlike previously discussed employment subsidies to firms, are paid directly to low-income workers who must be employed and earn income below a specified threshold for eligibility.[4]

These benefits serve a dual purpose: creating work incentives and providing income support. Their primary goal is to strengthen the labor market attachment of low-income workers by increasing their net income. Additionally, they encourage inactive individuals receiving means-tested benefits—entitlements conditional on income or wealth—to join the workforce, incentivizing employment over unemployment or inactivity (Immervoll and Pearson 2009; Van der Linden 2021). This is achieved by widening the gap between labor income and out-of-work income. Generous in-work benefits can also reduce the incidence of in-work poverty by raising the take-home pay of eligible workers and ensuring a minimum living standard.

However, while intended to encourage workforce participation, in-work benefits may inadvertently discourage labor supply at the intensive margin. As benefits phase out when income exceeds a certain threshold, workers may limit their hours to avoid losing eligibility (Boeri and van Ours 2008). Permanent benefits may trap workers in low-wage jobs, curbing opportunities for career and wage advancement (Brown and Koettl 2015). When eligibility is based on household income, in-work benefits can discourage labor supply from secondary earners, typically women, exacerbating gender inequalities in the labor market (Bertrand 2020). These outcomes highlight the critical role of policy design, particularly eligibility and entitlement rules, in shaping their effectiveness, as empirical studies have shown.

Nichols and Rothstein (2015) provide a comprehensive review of research on the Earned Income Tax Credit (EITC) in the United States, highlighting its role as an effective anti-poverty measure. Concerning the labor market outcomes, there seems to be a consensus on the success of in-work benefits in boosting the labor force participation of single mothers in the United Kingdom and the United States (Hoynes and Patel 2018), though less so in the Netherlands (Van der Linden 2021). Bastian (2020), for instance, argues that the EITC is one of the main drivers of relatively higher labor market attachment of women with children in the United States, despite the lack of a national paid parental leave policy. Yet, in-work benefits based on household income had considerably less positive impact on secondary earners, especially women, often discouraging their labor force participation (Brewer and Hoynes 2019). In Sweden, for instance, its introduction in 2007 led to an increased labor force participation of women, thereby reducing gender inequalities (Andrén and Andrén 2016). However, the presence of children in the household makes women, particularly those working part-time or not employed, less responsive to such economic incentives compared to men. Contrary to theoretical predictions, studies from Italy (Villamaina and Acciari 2023) and the United States (Eissa and Hoynes 2006) suggest that the impact of in-work benefits on hours worked is minimal, if any. Another crucial aspect to consider is how EITC influences market wages (in comparison to take-home pay). Nichols and Rothstein (2015) argue that employers capture (at least partly) these benefits at the expense of workers by reducing pre-tax wages, particularly for those at the lower end of the skill distribution and those eligible for minimal in-work benefits only. Therefore, this perverse impact on pre-tax wages consequently diminishes the intended redistributive effects (Christl et al. 2022).

The effectiveness of in-work benefits is also shaped by their interaction with other policies and labor market institutions. The uptake of in-work benefits is influenced by alternative options, such as the generosity of existing social assistance schemes. A cross-country comparison shows that the United Kingdom's more generous in-work benefits reduce poverty rates among families with children, while the less generous benefits in the United States provide stronger work incentives due to lower out-of-work benefits (Brewer and Hoynes 2019). Similarly, the interaction with minimum wages matters. In countries with low minimum wages, firms may exploit in-work recipients by offering the lowest possible wages, increasing the prevalence of low-wage jobs. By contrast, in countries with higher minimum wages, opportunistic firm behavior is constrained, ensuring better wage floors for low-income workers (Bozio 2023; Aerts, Marx, and Parolin 2022). Neumark and Wascher (2011) emphasize that the interplay between minimum wages and in-work benefits varies across demographic groups. For example, higher minimum wages amplify the benefits of the EITC for single mothers and families with children but may exacerbate negative employment effects for less-skilled workers and minorities without children.

The cyclical nature of in-work benefits raises questions about their effectiveness during economic downturns. Although these benefits can redistribute income during expansions, they are not countercyclical and offer little protection against job losses during recessions (Bitler, Hoynes, and Schanzenbach 2020). Low-skilled workers, who are more susceptible to job losses during downturns, technological change, and green transitions, may not benefit adequately from in-work benefits under these conditions (Causa et al. 2024; OECD 2024). This points to a fundamental assumption underlying in-work benefits: that low employment rates among low-skilled workers are primarily a supply-side issue. However, in regions with persistent structural unemployment, such as those characterized by long-term joblessness, this assumption may need reassessment. In these contexts, supply-side interventions like upskilling or demand-side policies, such as public employment programs, may offer more effective solutions (Van der Linden 2021).

2.6 | Start-Up Incentives

Start-up incentives represent a form of financial support designed to reintegrate unemployed or inactive individuals into the labor market by encouraging their transition to self-employment through the establishment of their own businesses. In many countries, start-up subsidies constitute a significant component of ALMPs. These subsidies aim to address systemic barriers to business ownership that underrepresented groups—such as women, youth, migrants, and the long-term unemployed—often face, including deficits in human, financial, and social capital (Caliendo and Künn 2015). Additionally, they provide income insurance during the high-risk initial phase of business establishment.

Empirical evidence consistently highlights the significant and persistent long-term effects of start-up subsidies in facilitating the sustainable integration of previously unemployed individuals into self-employment and enhancing their earnings (Caliendo and Tübbicke 2020; Srhoj and Zilic 2021). Given their documented efficacy, start-up incentives are widely adopted across countries. However, the literature on the inclusivity of start-up support programs highlights both positive impacts and challenges in fostering a more equitable entrepreneurial landscape.

On the positive side, these programs promote financial inclusion and economic mobility by lowering barriers to entrepreneurship, particularly for marginalized groups. For instance, dedicated programs for women entrepreneurs have been shown to foster inclusiveness. Tailored support mechanisms—such as mentorship, networking, and women-focused investment funds—improve business outcomes and help close the gender gap in entrepreneurship (Marlow and McAdam 2013). Kenya's rural entrepreneur program for ultra-poor women demonstrates a significant impact on female entrepreneurship (Gobin, Santos, and Toth 2017). In Germany, Caliendo and Künn (2015) show that start-up incentives successfully integrate formerly unemployed women into the labor market, arguing that self-employment provides women with greater independence and flexibility in balancing domestic and market responsibilities. Similarly, evidence from Mauritius indicates that start-up support significantly benefits women and youth, with effects becoming more pronounced in the long run (Pignatti 2024). Odding et al. (2024) find that the positive long-term effects of a Dutch program aimed at activating welfare recipients to become self-employed are more pronounced for low-educated individuals than for highly educated individuals, and for immigrants compared to natives, while age appears less significant.

Nonetheless, these programs may perpetuate existing disparities in certain contexts. For example, Srhoj and Zilic (2021) find that self-employment grants in Croatia significantly reduce the probability of returning to unemployment after the subsidy ends. However, these grants are particularly effective for individuals who already had better labor market opportunities—such as men, the more educated, and prime-age workers—while proving less effective for the long-term unemployed.

Regional disparities are another challenge. Although new business formations can help reduce local unemployment, start-up support is often concentrated in urban areas, benefiting already prosperous regions while leaving rural areas underserved (Fritsch and Schroeter 2011). Tailored rural-focused programs, as suggested by Qian, Acs, and Stough (2013), could help address this urban-rural divide by creating opportunities in neglected regions. Moreover, start-up support often prioritizes high-growth, tech-oriented sectors, which typically benefit entrepreneurs from higher socio-economic backgrounds, inadvertently reinforcing inequalities. Marlow and McAdam (2013) highlight how an overemphasis on financial performance metrics undervalues social enterprises or businesses prioritizing community impact, which are more likely to be led by women or minority entrepreneurs.

3 | Social Protection

3.1 | UI

UI systems provide temporary income support during periods of joblessness. However, these systems often entail important trade-offs in balancing equity (insurance) with efficiency considerations. On the one hand, more generous UI can effectively offset income losses in the case of unemployment, providing economic stability. On the other hand, they may raise reservation wages and extend unemployment spells, potentially reducing labor market efficiency (Moffitt 2002). Thus, an optimal UI system requires balance, ensuring that benefits are neither excessively generous nor insufficiently low.

UI schemes may contribute to labor market duality, as they typically cover only formal employees while excluding informal workers and, in some cases, the self-employed. This exclusion reinforces labor market segmentation and leaves a significant portion of the workforce without protection. In response, some countries—including Brazil, Uruguay, the Philippines, and South Korea—have implemented reforms to extend UI coverage to informal workers and the self-employed (ILO 2020). Another approach involves UI savings accounts, where governments contribute to individual accounts during formal employment. These accounts not only provide income support during unemployment but also incentivize formal employment by linking benefits to formal work histories (Cirelli, Espino, and Sanchez 2021; Gerard and Gonzaga 2018). Additionally, findings from Senegal demonstrate some challenges and trade-offs of extending UI in highly informal labor markets (Ndiaye et al. 2024). Although UI benefits provide significant welfare gains, its feasibility depends heavily on the design. UI funded through payroll taxes offers the greatest welfare gains but becomes unsustainable with high false claims. Conversely, funding UI through consumption taxes, though less efficient, remains viable even with high rates of false claims.

The relationship between UI benefit levels and labor market inequality varies across contexts. In advanced economies, the link does not appear to be strong (Jaumotte and Osorio Buitron 2015). In developing and emerging economies, however, the limited coverage of UI systems restricts their capacity to alleviate unemployment-induced poverty and inequality. In such contexts, individuals often rely on informal coping strategies, such as accepting informal work to escape poverty (Vodopivec 2013). Indeed, in such circumstances jobseekers are often forced to accept any type of work, including informal employment, limiting their opportunities for (re-)employment in the formal sector due to erosion of skills, adverse signaling of competencies, or information barriers. Therefore, well-designed unemployment benefit schemes are instrumental in strengthening incentives for formal employment (Ernst 2015).

3.2 | Old-Age Pensions

Old-age pensions represent the cornerstone of income protection for the elderly, with around 70% of persons above the statutory retirement age receiving them globally. Yet, effective coverage rates vary greatly across countries. In high-income countries, particularly in North America and Europe, coverage rates are nearly universal, while in Africa, Southern Asia, and the Arab States more than 70% of the population above pensionable age lacks access to pensions (ILO 2017).

Gender disparities within pension systems present a significant challenge, even in regions with nearly universal coverage. In the EU, for instance, women's pensions are, on average, 36% lower than those of men—a gap reflecting broader inequalities in the labor market. The range is striking, from a modest 3% in Estonia to as much as 46% in Malta (Dessimirova 2019). These discrepancies stem from structural inequalities: women are more likely to engage in part-time work, take career breaks for caregiving (e.g., after childbirth) and face persistent wage gaps (Tinios, Bettio, and Betti 2015). Such factors not only lower women's pension entitlements but also perpetuate cycles of economic vulnerability in old age.

The fiscal sustainability of pension systems has become a pressing concern in advanced economies due to increasing life expectancy. This has sparked debates on reform strategies, such as raising the statutory retirement age. Conversely, in emerging and developing economies, discussions focus on the inadequacy of pension systems to provide sufficient protection against old-age poverty. Even countries with universal pension schemes often fail to ensure income above the poverty line for elderly individuals or exclude informal workers, who form a significant portion of their labor force (ILO 2017). These gaps highlight how labor market inequalities perpetuate into retirement, making pension reform a critical tool for addressing long-term economic security.

Consequently, much research in advanced economies has focused on how changes in statutory retirement age and other retirement incentives affect the labor supply of elderly persons. For instance, in Austria, a reform increasing the early retirement age resulted in higher employment and unemployment among the affected cohort. Staubli and Zweimüller (2013) found that the reform primarily encouraged employment among high-wage workers in good health, while lower-wage, less healthy individuals often relied on disability or unemployment benefits, partly offsetting fiscal savings. Similarly, in Estonia, raising both statutory and early retirement ages for women significantly boosted employment rates (Soosaar, Puur, and Leppik 2021). These findings suggest that while increasing the retirement age can prolong labor market participation, the effects may be unevenly distributed, benefiting those with higher earning potential and better health while marginalizing vulnerable groups. Meanwhile, Ernst and Teuber (2008) calibrated an overlapping-generations model to evaluate tax-benefit reforms in the Netherlands, where old-age pensions are awarded to all people aged 65 and over, based on life residency rather than contributions. Their findings suggest that reducing pension levels could incentivize older workers to delay retirement, without causing poverty among retirees.

In developing and emerging economies, the focus is less on how pensions affect labor supply and more on the inadequacy of the systems, which often provide insufficient benefits or exclude informal workers—a significant portion of the workforce. In these contexts, cash transfers can serve as a critical lifeline for meeting basic needs, albeit they are insufficient to address the structural challenges of ensuring income security for the elderly.

3.3 | Disability Benefits

Disability benefits are government-funded income support schemes providing cash and/or in-kind assistance to individuals with functional disabilities and severe health problems (ILO 2017). Substantial employment gaps between people with and without disabilities are well-documented, ranging from 10 percentage points in Sweden to roughly 35 in the Netherlands and Hungary as of 2011 (Jones 2021). These pervasive trends are even more accentuated in developing countries, especially among women. This situation has motivated a large body of literature investigating, on the one hand, the various types of discrimination that people with disabilities face and, on the other hand, the role of disability benefits in explaining these huge employment gaps.

Despite different policies and regulatory initiatives intended to eradicate the discrimination that people with disabilities experience in the labor market, many aspects of discrimination still persist in terms of both access and fairness. For instance, the empirical evidence from France suggests that the introduction of obligatory quotas for disabled people in the private sector did not deliver the intended results (Jones 2021). Indeed, Barnay et al. (2019) find that these quotas actually had a negative impact as employers had the possibility of paying a fine for non-compliance.

Several advanced countries have reformed disability benefits systems amidst increasing claims and fiscal sustainability concerns, aiming to improve the labor market integration of disabled persons. McHale et al. (2020) reviewed the employment effects of eligibility criteria reforms for disability benefits across OECD countries. The employment of people with disabilities showed little response to most of the reforms that tightened eligibility criteria in European countries, although these undoubtedly reduced the pressure on public budgets as part of a broader fiscal consolidation. On the other hand, results from the reforms implemented in Canada and the United States, which have relaxed eligibility criteria, are somewhat mixed. Half of the studies find that this approach significantly reduced the employment of persons with disabilities, while the other half find no meaningful associations. For instance, Autor and Duggan (2003) show that relaxing the US Federal Disability Insurance eligibility criteria significantly reduced labor force participation among less educated individuals (i.e., high school dropouts) who were twice as likely to exit the labor market in response to adverse shocks.

Evidence from Spain paints a somewhat more complex picture. Frutos and Castello (2015) show that, on average, all else being equal, disability benefits recipients are 5% less likely to be employed compared to non-recipients. However, when they account for different levels of disability, the work disincentive appears to be significant only for a group with minor disabilities (i.e., close to the threshold of qualification for disability benefits). This underlines that a simple dichotomous indicator (i.e., disabled or not) can be misleading as it does not adequately capture the varying degrees of work incentives across different disability levels.

Overall, the literature points out that disability quotas have not delivered the expected results while relaxing the eligibility criteria for disability benefits was even counterproductive in terms of inclusiveness as it discouraged the disabled from participating in the labor market.

3.4 | Cash Transfers

3.4.1 | CCTs and UCTs

CCTs and UCTs are central elements of social protection strategies in many low- and middle-income countries, targeting low-income households. Although these transfers primarily aim to reduce poverty and improve health and education outcomes, they might also affect the labor supply. The standard economic model suggests that recipients of cash transfers may reduce their work effort and earn less (Moffitt 2002). This could be driven by the income effect or, in the case of CCTs, by the necessity to meet eligibility requirements. However, such programs may also enable more efficient job searches and improve job readiness, particularly when conditional on training. Empirical findings reflect this theoretical ambiguity, with mixed results depending on program design, context, and demographic characteristics.

CCTs require recipients to meet specific conditions, such as ensuring school attendance for children, undergoing health check-ups, enrolling in training, or actively seeking employment. Several studies, particularly those focusing on Latin America (e.g., Progresa/Oportunidades in Mexico, Bolsa Familia in Brazil, Solidario in Chile), highlight the potential of CCTs to facilitate transitions from the informal to the formal sector or from low-productivity to higher-productivity employment. These effects are attributed to the alleviation of financial stress and the encouragement to invest in education and skill acquisition, enhancing future employment opportunities in the formal labor market (Gertler, Martinez, and Rubio-Codina 2012; Gerard, Naritomi, and Silva 2021; Scarlato, Agostino, and Capparucci 2016; Baird, McKenzie, and Özler 2018).

However, the effectiveness of CCTs in achieving such transitions often depends on their integration with broader labor market policies. Escudero et al. (2018) and López Mourelo and Escudero (2017) argue that CCTs can promote employment and enhance job quality, but only when linked to activation measures such as training or job placement programs. Without these measures, the long-term impact of CCTs on employment is limited. This may partly explain why many studies report no significant effects of CCTs on employment or hours worked overall (Banerjee et al. 2017).

At the same time, unintended consequences of the requirements associated with CCTs have raised some concerns. de Brauw et al. (2015) suggest that, while CCTs do not reduce aggregate employment, they may increase the likelihood of recipients shifting from the formal to the informal sector to maintain eligibility. Additionally, CCTs may reduce labor market engagement for women. Fiszbein and Schady (2009) find that, although *Oportunidades* improved children's health and education outcomes, it reduced women's labor force participation as caregiving activities demanded by the program, such as attending health check-ups or school-related activities, diverted their time from market activities. Similar findings are reported for Brazil (de Brauw et al. 2015) and Argentina (Garganta, Gasparini, and Marchionni 2017).

In contrast to the extensive research on CCTs in developing countries, their impact in developed contexts is less explored. Del Boca, Pronzato, and Sorrenti (2021) examined a small-scale CCT program targeting low-income households with dependent children. They found that men in the CCT group were 14% more likely to be employed than those in the UCT or no-transfer control groups, whereas no significant effects were observed for women. This relatively large effect contrasts with the typically smaller impacts observed in developing countries, reflecting differences in institutional settings, welfare state structures, labor market institutions, and socio-economic contexts. In some cases, smaller transfers in developing countries may not be sufficient to compensate for market income, limiting their impact.

Unlike CCTs, UCTs are provided without requiring recipients to meet specific conditions. These programs aim to deliver immediate financial relief, reduce poverty, and improve well-being. Research suggests that UCTs can provide recipients with the financial stability needed to engage in entrepreneurial activities, particularly in contexts where formal employment opportunities are limited.

In low-income countries, UCTs have been shown to support self-employment and agricultural activities. Haushofer and Shapiro (2016), for instance, analyzed GiveDirectly's UCT program in Kenya and found that recipients frequently used the funds to invest in small-scale entrepreneurial activities, resulting in increased self-employment. Similarly, de Hoop, Groppo, and

Handa (2020) and Prifti et al. (2017) report that UCTs in Malawi and Zambia enabled households to allocate more time to farming activities, thereby enhancing productivity. Beyond facilitating self-employment, UCTs may also stabilize household incomes, enabling recipients to improve job search efforts and secure employment with better conditions.

UCTs generally do not result in widespread reductions in work effort in developing countries, although the effects are not uniform and vary across sociodemographic groups. For instance, Baird, McKenzie, and Özler (2018) report that reductions in labor supply are primarily observed among specific populations, such as the elderly and refugees. Similarly, evidence from Pakistan's Benazir Income Support Program shows significant increases in labor supply among men when disaggregated by gender, while female labor supply remains largely unaffected (Ambler and de Brauw 2019).

In contrast, evidence from high-income countries reveals more pronounced labor supply effects. Verlaat, Todeschini, and Ramos (2023) examined a generous UCT targeting low-income families in Barcelona and reported a 20% reduction in labor supply among recipients compared to the control group, primarily driven by parents with caregiving responsibilities. This highlights the potential for UCTs to exacerbate gender disparities in labor market participation, as 73% of recipients were women.

Overall, cash transfers, whether conditional or unconditional, generally do not significantly disincentivize work at the aggregate level (Baird, McKenzie, and Özler 2018). Their primary objectives—reducing poverty and improving health and education outcomes—remain their most substantial achievements (Banerjee et al. 2017). However, their impacts on labor supply vary considerably depending on program design, scale, and institutional context (developing vs. developed countries). In most cases, the transfer amounts are too small relative to potential labor income to induce substantial behavioral changes, though larger transfers tend to have more pronounced effects (e.g., Verlaat, Todeschini, and Ramos 2023). Cash transfers often have a particularly significant impact on women. Several studies, including Bibler, Guettabi, and Reimer (2023), Sauval et al. (2024), and Verlaat, Todeschini, and Ramos (2023), point to negative employment effects for mothers with children. These outcomes are frequently attributed to the substitution of market activities with caregiving responsibilities, reflecting the unequal distribution of household labor and the traditional role of women as secondary earners.

These findings raise broader questions about the role of conditions in shaping labor market inclusivity. Evidence from Latin America suggests that imposing conditions can sometimes deter women from participating in the labor market, as compliance requirements often take precedence over employment. Conversely, the absence of conditions may offer more flexibility but does not entirely eliminate challenges, particularly for women with caregiving responsibilities. Further research is needed to disentangle these effects across socio-demographic groups and in developed country contexts. A better understanding of these dynamics is essential to designing programs that maximize the benefits of cash transfers while minimizing unintended consequences.

3.4.2 | Universal Basic Income (UBI)

As an extension of UCTs, UBI offers regular, unconditional payments to all citizens or residents of a country, regardless of income or employment status. In a comprehensive literature review, de Paz-Báñez et al. (2020) summarized different implications of UBI on labor market outcomes, highlighting its potential benefits and drawbacks. On the positive side, UBI is associated with sustained increases in labor participation, especially notable among young individuals and women entering the job market. It also contributes to improved working conditions, as it enhances the bargaining power of workers, which in turn fosters a rise in formal employment and facilitates transitions to better job opportunities, including positions with higher wages. Conversely, the economic security provided by UBI allows some sociodemographic groups to reduce their working hours or exit the workforce. This effect is more pronounced among older adults, caregivers, the sick, casual workers, and in some cases, women with young children, as well as young people pursuing further education. For example, Bibler, Guettabi, and Reimer (2023) report that women with children receiving Alaska's Permanent Fund reduced their working hours. These contrasting findings highlight the multifaceted effects of UBI on labor market inclusivity across different labor force segments that should be carefully taken into consideration by policymakers. Caution is also needed when generalizing findings from short-term experiments with small groups. As Daruich and Fernández (2024) argue, while evidence may suggest positive outcomes in short run, effects in the long run, which account for the accumulation of human and physical capital, can result in significant welfare losses. This emphasizes the need to account for broader economic and intergenerational implications when designing and scaling UBI policies.

4 | Care Policy Measures

Care policies encompass a range of public initiatives aimed at supporting caregivers and those in need of care. Although overlapping with social transfers in some aspects—such as childcare grants—they stand out as a distinct policy domain by addressing structural barriers through measures like parental leave, social infrastructure (e.g., elderly and childcare facilities), and flexible work arrangements (e.g., teleworking and part-time work). By reducing care burden, these policies facilitate broader workforce participation and foster inclusive labor markets, particularly for women.

Despite significant global progress in female labor force participation over the past four decades (Ostry et al. 2018), gender disparities persist and are unevenly distributed worldwide. Literature attributes these trends to factors such as changing societal attitudes, higher educational attainment among women, structural shifts toward service sectors, and declining wages of male breadwinners (Ferragina 2020). However, parenthood continues to be the dominant factor driving the gender employment and participation gap.

The role of family and care policies in mitigating gender inequalities is closely tied to the entrenched social and cultural norms that disproportionately allocate caregiving and domestic responsibilities to women.[5] Moreover, sectors traditionally employing women, like healthcare and education, are often first to face budget cuts, limiting job opportunities, and exacerbating employment challenges (Pavolini et al. 2015). For example, austerity measures in South Africa have disproportionately harmed women, particularly those in unskilled groups, by exacerbating employment and poverty challenges (Escalante, Maisonnave, and Chitiga 2020). No less important are wage levels. Low wages in female-dominated sectors, such as care work, reduce job attractiveness, and perpetuate gender disparities (Perez-Arce and Prados 2021).

The literature broadly supports a positive relationship between parental leave policies and female employment rates, especially impact evaluation studies (Schwarz 2012; Ferragina 2020). Comparative cross-country studies, instead, point out that the relationship is not necessarily monotonic. For example, Olivetti and Petrongolo (2017) find that entitlements up to 50 weeks improve female employment, but longer leave periods—particularly unpaid ones—adversely affect employment rates. Similar conclusions are reached in earlier studies by Boeckmann, Misra, and Budig (2015) and Budig, Misra, and Boeckmann (2016), which indicate that longer leaves may reduce the probability of women returning to employment. Moreover, while longer leaves narrow wage gaps for low-skilled women, they may widen gaps for highly skilled women. However, the positive effects of leave entitlements are limited to low-skilled women only, whereas the wage gap for highly-skilled women expands as a result of longer leave entitlements. Nevertheless, more generous maternity and paternity leaves tend to increase the labor market attachment of young mothers, especially those with medium-to-high skills (Cipollone, Patacchini, and Vallanti 2014). Importantly, however, the effectiveness of parental leave varies across welfare regimes, complicating generalizability (Thévenon 2013).

There is strong consensus on the positive impact of public childcare services on female labor market participation and employment in advanced economies (Abendroth, Huffman, and Treas 2014; Asai et al. 2023; Christiansen et al. 2016; Grigoli, Koczan, and Topalova 2018; Olivetti and Petrongolo 2017; Sikirić 2021). Childcare provision increases both part-time and full-time employment, with effects particularly pronounced in Scandinavian and Anglo-Saxon countries (Thévenon 2013), while the positive effect on female labor force participation is more marked in countries with stringent employment protection legislation. Martínez and Perticará (2017) show that childcare for older children (aged 6–13 years old) also significantly impacts labor market outcomes. A randomized experiment in Chile introducing after-school care for this age group positively affected female labor market outcomes, increasing the employment rate by 5% and labor force participation by 7%. An illustrative example of how care measures can be even more effective if implemented hand in hand with other policies is the program *Brazil Carinhoso* ("*Caring Brazil*"), which provides childcare service along with microcredit and skill training for women (Guerreiro Osório and Ferreira de Souza 2013).

Subsidized childcare services are similarly effective, facilitating transitions from part-time to full-time employment (Gal and Theising 2015). This is particularly relevant as part-time employment post-childbirth, if not transitory, may place women in a financially subordinate position, leading to detrimental long-term effects on their future pension entitlements. At the same time, however, flexible working arrangements are essential in enabling women to balance paid work with unpaid responsibilities (Sikirić 2021). Cash-based family benefits (e.g., child allowances), instead, tend to have negligible effects on employment in advanced countries (Thévenon 2013).

Another important line of research builds on a broader concept of social investment/infrastructure, which encompasses the provision of education, healthcare, social assistance, and childcare (Oyvat and Onaran 2022). Importantly, while such investments do not exclusively target women, they can reduce gender inequalities in the labor market by stimulating both labor supply—by reducing the time women allocate between unpaid and paid work—and demand—as majority of workers in the care sector are women (Oyvat and Onaran 2022).

Recent empirical evidence from emerging countries—including Colombia, India, Indonesia, Philippines, South Africa, and Turkey—indicates that an increase in public spending in the care economy boosts total employment, notably for women, with Chile being an exception (Onaran and Oyvat 2023).[6] In Turkey, for instance, social care expenditure not only fosters job creation but also halves time-related working poverty among women (Ilkkaracan et al. 2021).

Comparable findings emerge in advanced economies, where the impact of care investments highlights the importance of contextual factors such as regional characteristics (Akitoby, Honda, and Miyamoto 2022). For example, increased spending on social infrastructure in Italy leads to higher female employment, however, only in regions with more pronounced gender disparities (Reljic and Zezza, 2025).

Globally, the labor-intensive nature of the care sector positions it as a strategic area for job creation. According to ILO simulations, investments in care services could generate 117 million additional jobs by 2030—equivalent to creating at least twice as many jobs per dollar spent compared to other sectors (Ilkkaracan and Kim 2019). These estimates are based on countries representing 60% of the global population (and 85% of the global GDP).

Globally, the care sector's labor-intensive nature makes it a strategic area for job creation, with ILO simulations (based on countries representing 60% of the global population) suggesting that investments in care services could generate 117 million additional jobs by 2030 (i.e., at least twice as many jobs for every dollar spent as compared to other sectors) (Ilkkaracan and Kim 2019).

5 | Tax Reforms

Tax reforms merit careful consideration, given their central role in redistributing the tax burden among individuals and between employees and employers. By affecting work incentives, they can shape labor supply decisions at both the extensive margin (i.e., the decision to participate in the labor market) and the intensive margin (i.e., the number of hours worked, conditional on participation) (Keane 2011). As a result, tax reforms can profoundly impact labor market inequalities, either by easing or exacerbating burdens on vulnerable groups.

The empirical literature on tax reforms encompasses two main approaches. One focuses on estimating labor supply elasticities through ex-ante microsimulations, assessing responses to hypothetical changes in after-tax wages and benefits. These analyses inform the design of efficient and equitable tax and transfer systems. The second stream evaluates tax reforms using observational data to assess their realized impacts. Although observational studies provide valuable insights into specific reforms, they often face challenges, particularly for non-targeted tax changes that lack a "natural" control group (Andrén and Andrén 2016).

Labor supply elasticities to after-tax wages and transfers are generally small, often below 0.5 as evidenced by extensive research, though they vary significantly across socio-demographic groups and countries (Keane 2011). Elasticities are typically higher for women compared to men, with further variation by marital status, number of children, education level, and income. Women with young children exhibit greater responsiveness to tax changes, as do married women relative to their single counterparts and low-skilled women relative to those with tertiary education. The most "responsive" are single mothers, in line with the findings on in-work benefits presented above (Kalíšková 2020). Nevertheless, differences in estimates often arise from modeling choices. Static models may overlook long-term consequences of labor decisions, whereas life-cycle models, which consider savings and human capital, acknowledge that accumulated work experience and future expectations shape labor supply choices over one's lifespan (Keane 2011; Daruich and Fernández 2024).

A central question in tax reform discussions concerns the trade-off between economic efficiency and equality under progressive taxation (Ciminelli et al. 2019). Although conventional views emphasize the distortionary effects of progressive taxes, Røed and Strøm (2002) argue that inevitability of the efficiency-equity trade-off is undermined once heroic assumptions (e.g., perfect competition, representative agent) are lifted. Progressive taxation, which lowers tax rates for lower-income earners, tends to encourage labor market participation among low-skilled workers and women, who are overrepresented in the lower-end of income distribution (Coelho et al. 2022). For instance, Barrios et al. (2020) show that transitioning from flat to progressive taxation in Central and Eastern European economies disproportionately benefits low-skilled workers. Conversely, Fink et al. (2019) reveal that introducing flat taxes in six European countries with differing welfare regimes—Germany, Austria, Spain, Czech Republic, the United Kingdom, and Sweden—would disproportionately disadvantage active single women compared to men. However, progressive taxation may also have adverse effects on female participation in combination with joint taxation, which would imply a higher marginal tax rate for secondary earners (Bertrand 2020).

Hence, it is equally relevant whether taxes apply at the individual or household level, as the latter can discourage female participation (Colonna and Marcassa 2015) and employment (Christiansen et al. 2016). For instance, a transition from joint to individual taxation in Sweden led to a significant increase in female labor market participation, especially for women with children (Selin 2014). Similarly, Asai et al. (2023), among others, find that in the long run, both the labor tax wedge and the relative tax rate on second earners are negatively associated with female participation rates. Thus, the design of tax policy is a crucial factor in addressing gender disparities, as it can reduce after-tax income inequality and alleviate barriers that discourage women from participating in the workforce (Coelho et al. 2022).

Payroll tax reforms—universal or targeted—are another relevant instrument for achieving higher inclusivity. In developing countries, payroll tax reductions are often intended to incentivize formal employment, targeting a shift from informal to formal work rather than outright job creation. For instance, Colombia's 2012 tax reform reduced payroll taxes from 29.5% to 16% while introducing a corporate profit tax. All empirical evaluations suggest that it expanded employment and reduced informality rates of the affected workforce population, regardless of the level of analysis, methodologies, and definitions of formal employment (Bernal et al. 2017, Bernal et al. 2017; Fernández and Villar 2017). However, while Kugler, Kugler, and Herrera-Prada (2017) argue that it particularly benefited women, Fernández and Villar (2017) find that it had a more sizeable effect among low-educated and prime-aged male workers.

Brazil is another illustrative example, where the SIMPLES and SUPERSIMPLES programs through simplification and reduction of tax burdens for micro-enterprises led to a substantial increase in formalization rates, with the latter alone raising the formality rate by 11 percentage points (Fajnzylber, Maloney, and Montes-Rojas 2011). A more cautious view is provided by Langot, Merola, and Oh (2019), who find that tax reforms might play only a minor role in moving to formalization, recommending complementary social protection and administrative policies. Another example is the *Monotax* (or *Monotributo*) implemented in Uruguay to simplify tax collection/payment schemes for small taxpayers. The *Monotax* emerged as an effective tool for the formalization of micro- and small enterprises, especially for women (Duran-Valverde 2014). Although there is (somewhat) a consensus on the direction of tax reform's effects on informality, substantial disagreement persists regarding their magnitude.

Evidence from Sweden provides insights into the impact of targeted tax reforms aimed at reducing youth unemployment by halving payroll taxes for workers under 27. Initial assessments indicated a modest short-term employment increase of 0.27% and negligible wage impacts, with fiscal costs per job nearly four times the average hiring cost for the targeted group (Egebark and Kaunitz 2018), leading to the reform's discontinuity. However, a more recent study by Saez, Schoefer, and Seim (2021) highlights contrasting long-term effects. Employment gains grew significantly over time, with an initial increase of 2.3 percentage points during 2010–2013 expanding to 4.4 points in 2014–2015 and further to 6.3 points in 2016–2018, achieved at a significantly lower cost, even after the reform's phase-out. The study also reveals notable heterogeneity in outcomes, with the tax reduction being particularly effective in regions where youth unemployment exceeded 20% and yielding stronger long-term benefits for women after the subsidy ended. The Swedish case demonstrates that short-term analyses may underestimate the benefits of policies that take time to materialize and address structural issues such as regional disparities and gender inequalities by "correcting" discriminatory behaviors.

Similarly targeted approaches could benefit older workers. Alpert and Powell (2013) argue that payroll tax reductions for workers aged 65 and above could delay retirement, particularly among women. Their simulation analysis reveals that such a tax reduction would reduce the likelihood of female workers exiting the labor force by 7% and male workers by 6%.

Our review underscores that the impacts of tax reforms on labor market inequalities are mediated by a complex interplay of incentives, which vary across socio-demographic groups. A consistent pattern is the higher responsiveness among women compared to men, irrespective of age, skills, or marital status. Additionally, contextual factors, such as countries' structural characteristics and institutional set-up are crucial in determining the effectiveness of tax reforms. For instance, Kalíšková (2020) shows that reforms tend to have more pronounced effects in countries with significant gender employment gaps, such as those in Southern Europe. Within-country heterogeneities also play a critical role in shaping policy outcomes. Rubolino (2022) finds that targeted tax cuts in Italy increased female employment, particularly in regions with more pronounced gender disparities.

A notable limitation of microsimulation studies is their tendency to overlook responses from the demand side. Firms may engage in opportunistic behaviors, such as moderating after-tax wages, a practice particularly common in countries with low minimum wages. This behavior can lead to firms capturing a significant share of payroll tax reductions, thereby undermining the intended labor supply incentives. Bozio (2023) illustrates this with the case of France, where between 1993 and 2019, the government successfully reduced payroll taxes while ensuring that these cuts benefitted employees rather than employers through adjustments to the minimum wage. This example highlights the value of coordinated interventions that offer greater control over outcomes (i.e., where minimum wage policies work alongside tax reductions to ensure equitable distribution of benefits). These findings emphasize the necessity of accounting for both supply and demand-side dynamics when evaluating the actual and potential impacts of tax reforms.

6 | Concluding Remarks

This paper builds upon the long tradition of evaluating the impact of fiscal policies on labor market outcomes. Although earlier reviews and meta-analyses have primarily focused on aggregate effects or specific instruments (see Card, Kluve, and Weber 2018; de Paz-Báñez et al. 2020; Gechert 2015; Kluve et al. 2019, among others), this study takes a critical approach to review fiscal policy instruments—including ALMPs, care policies, social protection measures, and tax reforms—with the aim of understanding their differentiated impacts on underrepresented groups and their potential to promote inclusivity.

Table 1 summarizes the objectives, evidence, challenges, and key considerations for future policy design. PWS is particularly effective for vulnerable workers and regions, while start-up subsidies have shown success in facilitating self-employment, especially for women. Similarly, sector-specific training programs are more effective than generic ones, although their impact typically manifests in the medium term. Care policies emerge as central for addressing gender disparities in labor markets: shorter parental leave periods and public childcare services boost female labor force participation, while longer leave periods may deter workforce re-entry, particularly for highly skilled women.

Moreover, our review highlights that the effectiveness of fiscal policies depends on targeting, their design, the interplay between different measures, and the structural and institutional contexts.

6.1 | Targeting

Our review highlights that the impact of tax reforms varies across socio-demographic groups, with the labor supply response being particularly pronounced for single mothers, married women, and low-skilled. For this reason, targeting interventions to specific vulnerable groups (e.g., in-work benefits, PWS, start-up subsidies) may, in some cases, prove successful, while in others, targeted measures (e.g., employment subsidies and quotas for the disabled) are less effective and can even be stigmatizing.

6.2 | The Design of Fiscal Policy Measures Is Pivotal Role in Shaping Their Outcomes

In-work benefits are particularly effective in addressing working poverty but may inadvertently discourage the participation of secondary earners—primarily women—when eligibility is based on household income. Progressive tax systems encourage participation among low-income and low-skilled workers, where women are overrepresented, by lowering marginal tax rates. At the same time, joint taxation can discourage secondary earners from participating, disproportionately affecting women. In developing economies, payroll tax reforms targeting small enterprises can promote formalization and inclusivity, although complementary policies are often necessary to maximize their impact. Social protection measures such as UI and old-age pensions are instrumental in addressing labor market inequalities, but their effectiveness depends on coverage and design. Extending UI to informal workers and the self-employed could reduce labor market segmentation in emerging economies, while ensuring pension adequacy and inclusivity remain crucial in regions with limited coverage and high gender pension gaps.

6.3 | Fiscal Policy Instruments' Impacts Depend on Their Interaction With Other Policy Measures

The literature often overemphasizes the capacity of individual policies to mitigate inequalities, neglecting the complex interdependencies among various mechanisms and policies. For decades active labor market policies have been dominating policy discourse, especially training programs. However, evidence suggests that these policies alone are insufficient. Our review points out that some measures (e.g., training) are more effective if they go hand in hand with other policies (e.g., PES). Similarly, the effects of in-work benefits are closely intertwined with other labor

TABLE 1 | Overview of fiscal policy instruments.

Policy	Target	Intended effects	Inclusiveness	Evidence	Challenges	Critical aspects
Direct public job creation (PWS, JG)	Labor demand	Counter involuntary unemployment and inactivity, reduce poverty	Informal and low-skill workers, women, youths	Positive outcomes for employment and wages, particularly for women and unskilled workers	Potential underemployment, fiscal constraints	Level of wages, duration of the program
Public Employment Services (PES)	Labor market mismatch	Reduce mismatch, facilitate reintegration of inactive welfare beneficiaries	Unemployed, particularly low-skilled, senior, youth	Positive effects prevail, especially in combination with complementary policy measures	The positive effects weakened by deadweight costs and "cream-skimming" effects	Long-term effects, integration with complementary measures
Training programs	Labor supply	Skill upgrading, employment	Youths, low-skilled workers	Positive outcomes in some countries, mixed or negative in others; sector-specific programs fare better	Unlikely to be a short-term solution, effects may manifest only in the medium run	Alignment with in-demand skills, more effective in combination with other policies
Employment retention schemes	Labor demand	Preserve jobs at risk, prevent erosion of skills, stabilize consumption	General, not targeted measure	Effective in preventing job losses; scant evidence on inclusiveness	May exacerbate inequalities (insiders vs. outsiders; women vs. men)	Labor market inequality dimension should be considered when formulating entitlement rules
Wage subsidies	Labor demand	Boost or sustain employment for disadvantaged groups	Long-term unemployed, low-wage and low-skilled workers	Mixed evidence, more effective in Latin America	Stigmatization effect from narrowly targeted subsidies, deadweight costs, substitution effects	Duration of the subsidy should be calibrated to avoid fiscal inefficiency, integration with other policies, conditionality
Hiring subsidies	Labor demand	Reduce unemployment for vulnerable groups	Long-term unemployed, old-age workers, people with disabilities, youth and occasionally women	Mixed outcomes, with positive but typically short-lived employment effects	Deadweight cost, revolving door effect	Design should include conditionalities to ensure long-term effectiveness

(Continues)

TABLE 1 | (Continued)

Policy	Target	Intended effects	Inclusiveness	Evidence	Challenges	Critical aspects
Start-up incentives	Labor supply	Reintegration into the labor market, fostering entrepreneurship	Long-term unemployed, women, youth, migrants	Significant and persistent effects on self-employment, particularly for women	Less effective for the long-term unemployed, urban-rural divide in access	Better targeting toward marginalized groups and underserved regions
In-work benefits	Labor supply	Reduce inequality and in-work poverty, create work incentives	Low-wage, low-skilled workers, indirectly also women	Boosts labor force participation, especially for single mothers	May create low-wage traps and opportunistic firm behavior	Both supply and demand aspects are crucial for design, especially the nexus with minimum wages
Unemployment insurance	Social protection, labor supply	Temporary income support during unemployment spells	Broad coverage, formal workers	May foster labor market duality; insufficient levels may encourage informality	Limited coverage and insufficient level in developing countries	Design should minimize labor market duality
Old-age pensions	Social protection, labor supply	Income protection for the elderly	Coverage rates differ greatly, substantial gender pension gaps persist, exclusion of informal workers	Raising the retirement age boosts employment among the healthy	Fiscal sustainability concerns in advanced countries, inadequate coverage in developing ones	Pension system design should address labor market inequalities, ensuring adequate protection against old-age income losses
Disability benefits	Social protection, labor supply	Income support to individuals with disabilities	People with disabilities	Labor supply shows little response to reforms that tighten eligibility criteria, quotas with a non-compliance payment option are ineffective	Substantial employment gaps persist, especially in developing countries and among women	Careful design to balance fiscal sustainability and inclusiveness, considering the varying degrees of work incentives across different disability levels

(Continues)

TABLE 1 | (Continued)

Policy	Target	Intended effects	Inclusiveness	Evidence	Challenges	Critical aspects
UBI	Social protection, labor supply	Unconditional income support to all citizens or residents	Universal coverage	Facilitates transitions to better job opportunities and formal employment, but may reduce employment among certain groups	Fiscal sustainability concerns, potential reduction in working hours and flows to inactivity	Trade-off between adequacy and fiscal sustainability
Conditional cash transfers	Social protection, labor supply	Income support, improved education, health	Low-income households	Limited aggregate effects on labor supply	Can reduce women's labor market participation due to caregiving burdens imposed by conditionalities	Conditionalities should be designed to avoid disproportionately burdening women while enhancing long-term benefits in education and health
Unconditional cash transfers	Social protection, labor supply	Income support, poverty reduction	Low-income households	Positive effects on self-employment; minimal aggregate labor supply reductions, primarily among specific groups (e.g., women, elderly, refugees)	Labor supply reductions among caregivers and marginalized groups	Design should account for heterogeneous labor supply responses and minimize unintended consequences, particularly for women
Care policies	Labor supply	Reducing caregiver burden, supporting workforce participation, childhood development	Mostly women	Reduces gender inequalities, especially for low-skilled, reduces unpaid care work, promotes female participation	Care sectors suffer from underinvestment (low wages, precarious jobs); access and affordability can be barriers	The care sector's sustainability depends on public investments to fulfill growing unmet needs via affordable and accessible care services

(Continues)

TABLE 1 | (Continued)

Policy	Target	Intended effects	Inclusiveness	Evidence	Challenges	Critical aspects
Tax reforms: Progressive vs. flat taxation	Labor supply	Balance equity and efficiency in taxation	Low-skilled and low-wage workers (often women)	Progressive taxation boosts participation of low-skilled and low-wage workers	The effectiveness of the reform is highly dependent on country-specific	Outcomes mediated by a complex set of incentives, varying across
Tax reforms: Payroll tax adjustments	Labor supply	Encourage employment growth	Broad coverage	Heterogeneous results, women more responsive; may boost formal employment	institutional set-up; joint taxation based on household income may discourage secondary earners participation (mostly women)	socio-demographic groups; coordinated interventions (e.g., with minimum wage) can offer greater control over the distribution of benefits, minimizing firms' opportunistic behavior
Tax reforms: Targeted reductions	Labor supply	Stimulate employment of specific groups	Vulnerable groups	Short-term positive employment impact, mixed evidence on long-term effects		

Source: Authors' elaboration.

market institutions, such as the minimum wage. Similarly, the success of PWS and employment subsidies in enhancing female employment often depends on the availability of childcare facilities. Another example is the "generosity" of alternative options like early retirement schemes and disability benefits, which may undermine the effectiveness of employment subsidies. These findings raise a question of whether individual policies can achieve inclusive goals or if more systematic approaches are required to ensure equitable access to good jobs and reduce disparities between different groups in the labor market.

Our review allows us to draw some conclusions in the face of the structural changes posed by the green and digital transitions and demographic shifts, which are reshaping labor markets globally. These transformations create both opportunities and challenges, generating winners and losers, particularly among vulnerable groups (Huang 2022). The green transition, in particular, poses a significant risk of leaving low-skilled workers behind due to skill mismatches between declining "brown" industries and emerging "green" sectors (Causa et al. 2024; Rodrik and Stancheva 2021; OECD 2024).

Addressing these challenges requires a comprehensive policy mix. Although sector-specific training and reskilling initiatives are indispensable, particularly in regions most affected by transitions, upskilling is a lengthy and complex process (Card, Kluve, and Weber 2018). Relying on it as the sole strategy to tackle low employment rates and structural barriers for vulnerable groups is inadequate (Rodrik and Stantcheva 2021). Rather than focusing solely on "changing the people," the state could play a proactive role in creating jobs that align with the existing skill sets of those most at risk (Minsky 1965). Targeted PWS present a viable and complementary policy solution, offering tangible benefits to the most vulnerable workers and regions. The integration of such programs with environmental objectives is likely to foster positive public sentiment and reduce resistance to necessary economic changes (Bergquist, Mildenberger, and Stokes 2020). Moreover, employment subsidies remain a crucial tool for stimulating labor demand. However, their design must incorporate strong conditionalities prioritizing permanent and full-time contracts to minimize "revolving door" effects and ensure that these contributes to the creation of decent jobs rather than perpetuating employment instability.

Care policies are equally indispensable in addressing demographic shifts. Investments in social infrastructure, such as childcare and elder care services, reduce women's unpaid domestic work burdens and significantly expand their employment opportunities (Reljic and Zezza 2025). Such investments are not only vital for fostering inclusive labor markets but also for building economic resilience in aging societies.

Finally, some aspects of the literature deserve further investigation. First, many studies focus on the immediate or short-term effects, potentially underestimating or overestimating the true impact of fiscal policies. Longitudinal research is needed to better understand their long-term implications, particularly for vulnerable groups. Second, the regional dimension of labor market inequalities remains underexplored, despite its importance in countries with pronounced disparities. Third, the sectoral impacts of fiscal policies—particularly in emerging and declining industries—deserve closer attention in the context of the return of industrial policies. Finally, the interaction between fiscal and other policy domains, such as innovation or monetary policy, and institutions (e.g., minimum wages) is a critical yet under-researched area.

In conclusion, while individual policies can address specific inequalities, achieving inclusive labor markets may require more systemic approaches that consider the interplay of multiple instruments. A more integrated perspective, tailored to national and regional contexts, is essential to ensure equitable access to good jobs, reduce disparities, and meet the challenges of an evolving global economy.

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Data Availability Statement

Data sharing are not applicable to this article as no datasets were generated or analyzed during the current study.

Endnotes

[1] Schludi (2023): "At the peak, 40% of the French labour force were on short-time work," In: IAB-Forum 16th of May 2023, https://www.iab-forum.de/en/at-the-peak-40-percent-of-the-french-labour-force-were-on-short-time-work/

[2] Participation is voluntary, it includes a training period and an individually tailored job that pays no less than a minimum wage (1500 euros), either in the market economy or in social enterprise implementing local projects.

[3] The youth unemployment rate in the OECD countries in the third quarter of 2021 ranged from less than 5% in Japan to almost 40% in Costa Rica (OECD, 2021). Countries with a youth unemployment rate exceeding 20% are also the countries with significant gender gaps (e.g., female youth unemployment rate was 15 percentage points higher than that of males in Costa Rica).

[4] For instance, the entitlement rules of the Earned Income Tax Credit in the United States vary according to marital status, the number of children that the applicant has and the level of income.

[5] According to the World Bank (2012), women spend approximately one to three hours more per day on housework than men and two to ten times more time daily on caregiving, with a corresponding reduction in market activities. Barczyk and Kredler (2019) highlight that informal long-term care, whether provided by spouses or children, predominantly falls on women, ranges from to 22% in Northern European countries (Belgium, Denmark and Sweden) to 81% in the Southern Europe (Italy and Spain). The uneven distribution of unpaid care work, coupled with inadequate public care services, exacerbates gender inequality in employment.

[6] These studies typically use structural macro models or input-output analysis to evaluate the impact of government spending on social infrastructure (De Henau and Himmelweit, 2021).

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