The economic case for reducing gender gaps in the labour market

by Magalí Brosio, Gala Diaz Langou and Martin Rapetti [1]

Gender gaps in the labour market remain a pressing global challenge. Female labour force participation has risen in recent decades, but it is still nearly 27 percentage points lower than the rate for men, and no improvements are expected in the short term (ILO 2017a). Female participation rates have stagnated in recent years, casting doubts on the future tendency of this phenomenon and the reduction of gender gaps in the labour market. Gender inequality is not only observed in terms of participation rates: women who do participate are less likely to find a job than their male counterparts, and if they do manage to find employment, they often find additional obstacles: vertical and horizontal segregation, lower wages, etc.

The state of gender gaps in the labour market is worrisome *per se*, but the very slow rate of progress makes things even more shocking. According to the World Economic Forum's last *Global Gender Gap Report*, the situation of women actually worsened for the second year in a row in 2017. If the current trend continues, economic gender equality will not be achieved for at least another 217 years (World Economic Forum 2017).

Both the state and the evolution of gender gaps highlight how relevant the obstacles to both the fulfilment of women's rights and sustainable development are. First and foremost, the persistence of gender gaps in the labour market represents a violation of women's economic rights, which have been recognised internationally through human rights commitments and specific women's rights instruments (such as the Convention on the Elimination of All Forms of Discrimination Against Women—CEDAW—adopted in 1979 by the United Nations).

There is also a large body of research suggesting that there are substantial potential economic gains to be made by reducing gender gaps. This literature, which is briefly surveyed in this article, suggests that gender inequality is not only unfair but also inefficient. Narrowing and eliminating gender gaps may yield important economic returns, both nationally and globally.

Economic arguments for addressing gender gaps: three important channels

Gender labour gaps may affect economic performance in several ways. One obvious channel emphasises the underutilisation of talent associated with women's lower participation in the labour market. Increasing their participation—by, for instance, exploiting the economies of scale of extending the supply of day care—would imply an increase in a country's potential gross domestic product (GDP) and per capita income (OECD 2012; McKinsey Global Institute 2015; ILO 2017a).

A second channel through which gender gaps affect efficiency is the underinvestment in women's human capital. Blackden et al. (2006) argue that gender inequality in education—in addition to that in the labour market—reduces both the actual and potential stock of human capital. The disadvantaged position of qualified women in labour markets and the artificial restriction posed on the pool of talent create inefficiencies and hamper economic growth. A similar argument can be made specifically regarding entrepreneurial talent, which is arguably distributed randomly among individuals independently of their gender. If women have fewer opportunities to reach management positions—a phenomenon known as the 'glass ceiling'—the speed of innovation and technology adoption in the economy shrinks and, as a consequence, so do aggregate productivity and GDP per capita (Esteve-Volart 2009).

A third channel operates through the impact of gender inequality on the stock of human capital of the next generation. Sen (1990) and Klasen and Wink (2003), for instance, argue that asymmetries in employment and income undermine women's bargaining power within the household. Since women are typically more likely than men to invest in their children's well-being (Duflo 2003; 2012), their relative lower bargaining power may lead to underinvestment in children's education and health. Similarly, Slotsky (2006) argues that increasing women's decision-making power favours aggregate productivity in the long term, as they seem to have a stronger preference for goods and services that contribute to their children's human capital (de Hoop et al. 2017). Finally, because the increase in female education levels renders women's time more expensive, families tend to reduce the number of children they have and spend more on them. This leads, on average, to higher income per capita (Lagerlof 2003).

Economic returns of reducing gender gaps: some evidence

An increasing literature has documented and quantified the economic returns of reducing gender gaps in the economy. A group of studies has analysed how different aspects of the gender composition of boards of directors or managerial positions within a firm impact their performance. The Credit Suisse Research Institute (CSRI 2014), for instance, finds that within large companies—with market capitalisation greater than USD10 billion—those in which managing boards have a higher-than-average percentage of women outperformed those with fewer-than-average by 36 per cent in terms of stock market performance between 2005 and 2014. Similarly, Catalyst (2011) shows that Fortune 500 companies with a higher representation of women in senior management positions financially outperform companies with proportionally fewer women at the top: between 2004 and 2008, they obtained 26 per cent higher return on invested capital and 16 per cent higher return on sales. Kim and Starks (2016) show that women directors enhance the effectiveness of advisory boards due to a more diversified pool of skills. Greater director heterogeneity of expertise is associated with higher company value—a gender-diverse board has the potential to increase company value (Kim and Starks 2015). Ali et al. (2011) find evidence of an overall positive relationship between gender diversity and employee productivity in Australian companies. Finally, Cuberes and Teignier-Baqué (2011) estimate that male-dominated industries could increase their productivity by between 3 per cent and 25 per cent in many developing countries by improving female labour force participation.

Consistent with the evidence at the micro level, positive effects are estimated at the macroeconomic level. McKinsey Global Institute (2015) constructs an ideal future scenario in which women participate in the economy identically to men. According to its estimations, this could add up an extra USD28 trillion dollars in 2025 to annual global GDP, compared with a business-as-usual scenario. These numbers arise from closing different gaps. For instance, rising female participation in the labour force accounts for 54 per cent of the potential increase. Closing the gap in hours worked would generate 23 per cent of the estimated incremental GDP. Finally, women tend to be overrepresented in lower-productivity sectors, while men are overrepresented in those with higher-than-average productivity. Thus, shifting women into positions in higher-productivity sectors to match male distribution patterns would add another 23 per cent to the total potential incremental GDP.

Since this scenario seems unrealistic in the medium term, the report evaluates achievable scenarios more closely. For example, if all countries matched their progress in terms of gender parity with the best-performing country in the region, global GDP would increase by USD12 trillion by 2025. Similarly, the International Labour Organization (ILO) estimates the potential gains in terms of GDP if all countries were to meet the G20 target, established in 2014, of reducing the gap between male and female labour participation rates by 25 per cent by 2025. This amounts to an increase of USD5.3 trillion dollars in global GDP. Moreover, the report highlights the potential self-financing effects related to public investment that is attributed to closing gender gaps: it is estimated that this could increase global tax revenues by USD1.4 trillion dollars (ILO 2017b).

Conclusions

Observed gender gaps in the economy imply a straightforward disadvantage for women. The case for closing such gaps can and should be made in terms of fairness. An emerging literature suggests that the case could also be made in terms of economic efficiency and growth. Giving equal opportunities to women in the labour market is in many cases a good deal for individual companies, but it is clearly a good deal for societies as a whole. ●

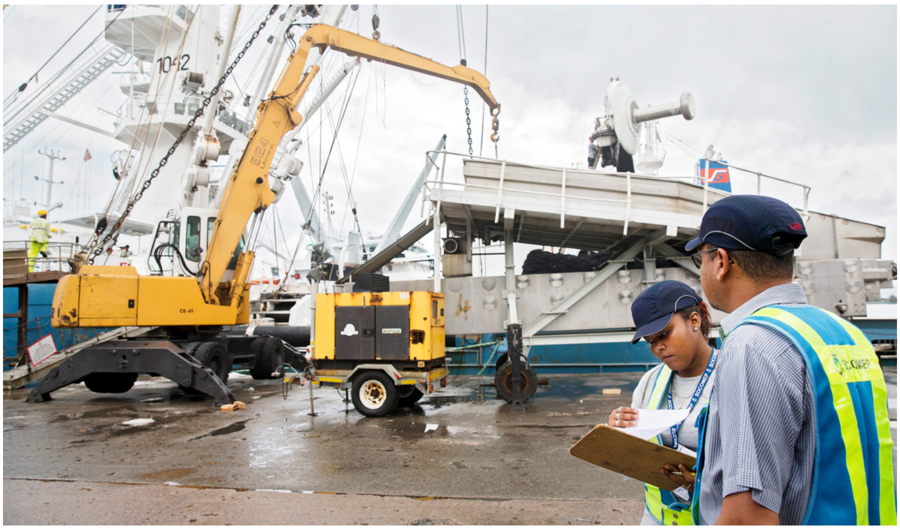

Photo: UN Women/Ryan Brown. One of the few women who work on the ships and docks at Port Victoria, Seychelles, 2017 <https://goo.gl/P16Gfg>.

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1. *Centro de Implementación de Políticas Públicas para la Equidad y el Crecimiento* (CIPPEC).