

GENDER GAPS IN THE LABOUR MARKET: New evidence of the negative impact on productivity and incomes

Removing the barriers that women face in the labour market is likely to lead to major productivity gains, according to research by **David Cuberes** and **Marc Teignier**, to be presented at the annual congress of the European Economic Association in Mannheim in August 2015. Their study examines the impact of 'gender gaps' that prevent talented women from fulfilling their labour market potential as employers and entrepreneurs.

The results show that in countries where all women are excluded from entrepreneurship, average output per worker drops by almost 9% because the average talent of entrepreneurs falls. In cross-country analysis, the average income loss due to all gender gaps in the labour market is equal to 15%, almost half of which is due gender gaps in entrepreneurship.

For a sample of developing countries, the actual gender gaps and their implied income losses differ importantly across geographical regions, with a total income loss of almost 38% in Middle East and North Africa and a 10% loss in Central Asia.

The researchers note that when people are free to choose their occupation, the most talented individuals – independent of their gender – will often organise production carried out by others, and so they will spread their ability advantage over a large scale. From this point of view, obstacles to women's access to entrepreneurship reduce the average ability of a country's entrepreneurs and negatively affect the way that production is organised in the economy and, hence, its aggregate efficiency.

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This paper examines the quantitative effects of gender gaps in entrepreneurship and labour force participation on aggregate productivity and income per capita. It shows that when all women are excluded from entrepreneurship, average output per worker drops by almost 9% because the average talent of entrepreneurs falls.

In cross-country analysis, the study finds that the average income loss due to the gender gaps is equal to 15% in the OECD sample, almost half of which is due gender gaps in entrepreneurship. For the sample of developing countries, the actual gender gaps and their implied income losses differ importantly across geographical regions, with a total income loss of almost 38% in Middle East and North Africa and a 10% loss in Central Asia.

The World Development Report (2012) of the World Bank describes in detail the current state of gender inequality across the world. Recent decades have witnessed a significant drop in gender gaps in the labour market but the prevalence of some of these gaps is still high, especially in developing countries. In particular, the data show that women still fall behind in earnings and productivity.

One possible explanation is that women tend to be under-represented in high-skilled occupations and entrepreneurship. When people are free to choose their occupation, the most talented individuals – independently of their gender – will often organise production carried out by others, and so they will spread their ability advantage over a large scale. From this point of view, obstacles to women's access to entrepreneurship

reduce the average ability of a country's entrepreneurs and affect negatively the way production is organised in the economy and, hence, its aggregate efficiency.

This analysis features a model in which agents differ in their entrepreneurial ability and, based on this, they choose to be workers, self-employed or employers. Men and women have the same talent distribution, but there are several frictions on women's opportunities in the labour market.

In particular, the fraction of women participating in the labour market is restricted as well as the number of women who can work as employers or self-employed. The authors then choose the parameter values of the model to match some data facts on firms' size distribution and occupational choices and simulate it to obtain the quantitative predictions.

In the cross-country analysis, they document the existence of remarkable differences in developing countries' gender gaps across geographical regions, which lead to significant variation in the implied income losses.

The region with the largest income loss is the Middle East and North Africa where the total income loss is 38%, a fifth of which can be attributed to losses associated with occupational choice gaps. South Asia has the second largest income losses due to gender gaps, 25%, almost half of which is due to occupational gaps.

Central Asia and sub-Saharan Africa, on the other hand, are the regions with the lowest total income loss due to gender gaps, 10% and 12% respectively. Finally, the OECD sample has the lowest income loss due to the entrepreneurship gaps, around 5.5%.

Although it is not possible directly to associate the observed gender gaps with discrimination, these results suggest that removing the barriers that women face in the labour market is likely to lead to substantial productivity gains.

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'Aggregate Effects of Gender Gaps in the Labour Market: A Quantitative Estimate'
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