Economic gains for gender inclusion: New mechanisms, new evidence [1]

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Executive Summary

While progress has been made in increasing female labor force participation (FLFP) in the past 20 years, the pace has been uneven, and large gaps remain. FLFP was 54 percent for the median Organisation for Economic Co-operation and Development (OECD) country in 2014, 14 percentage points below male labor force participation (MLFP); for the median middle-income country, FLFP was only 49 percent, 26 percentage points below MLFP; and for the median low-income country, FLFP was 64 percent, 13 points below MLFP.

Narrowing participation gaps between women and men is likely to engender large economic gains, with two mechanisms pointing to larger gains than previously thought:

Gender diversity: Women bring new skills to the workplace. This may reflect social norms and their impact on upbringing, social interactions, as well as differences in risk preference and response to incentives, for example. As such, there is an economic benefit from diversity—that is, from bringing women into the labor force—over and above the benefit resulting from simply having more workers. This hypothesis finds support in the data—both cross-country macro data and firm-level data. This paper finds that male and female labor are complementary in production. The results also imply that standard models, which do not differentiate between genders in their analysis, understate the favorable impact of gender inclusion on growth, and misattribute to technology a part of growth that is actually caused by women's participation. The results further suggest that narrowing gender gaps benefits both men and women, because of a boost to male wages from higher FLFP.

Sectoral reallocation: As households get richer during the process of economic development, demand for services rises, and labor is reallocated to the growing sector. Because services are more gender equal in employment than other sectors, developing economies naturally become more inclusive. But barriers to FLFP (which include tax distortions, discrimination, and social/cultural factors) slow this process, reducing output and welfare. This paper estimates that these barriers can depress FLFP by as much as a tax of up to 50 percent on female labor, depending on the region. Barriers not only hold back gender parity, they have a direct cost: welfare gains from their removal would exceed 20 percent in India, Pakistan and other countries in the Middle East and North Africa, for example.

These mechanisms imply that reducing female underemployment should yield greater gains than an equivalent increase in male employment: gender diversity brings benefits all its own.
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