

ANALYSIS
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Prepared by

Dawn Holland
Dawn.Holland@moodys.com
Director

Katrina Ell
Katrina.Ell@moodys.com
Associate Director

Contact Us

Email
helpeconomy@moodys.com

U.S./Canada
+1.866.275.3266

EMEA
+44.20.7772.5454 (London)
+420.224.222.929 (Prague)

Asia/Pacific
+852.3551.3077

All Others
+1.610.235.5299

Web
www.economy.com
www.moodysanalytics.com

Close the Gender Gap to Unlock Productivity Gains

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- » Improving gender parity in management positions can unlock higher economic prosperity globally, particularly in developing nations where untapped potential is higher.
- » Shifting social norms is a lengthy and complex process, but policies such as enforcing flexible working conditions, providing affordable childcare, and providing paid maternity and paternity leave help to drive change in the right direction.

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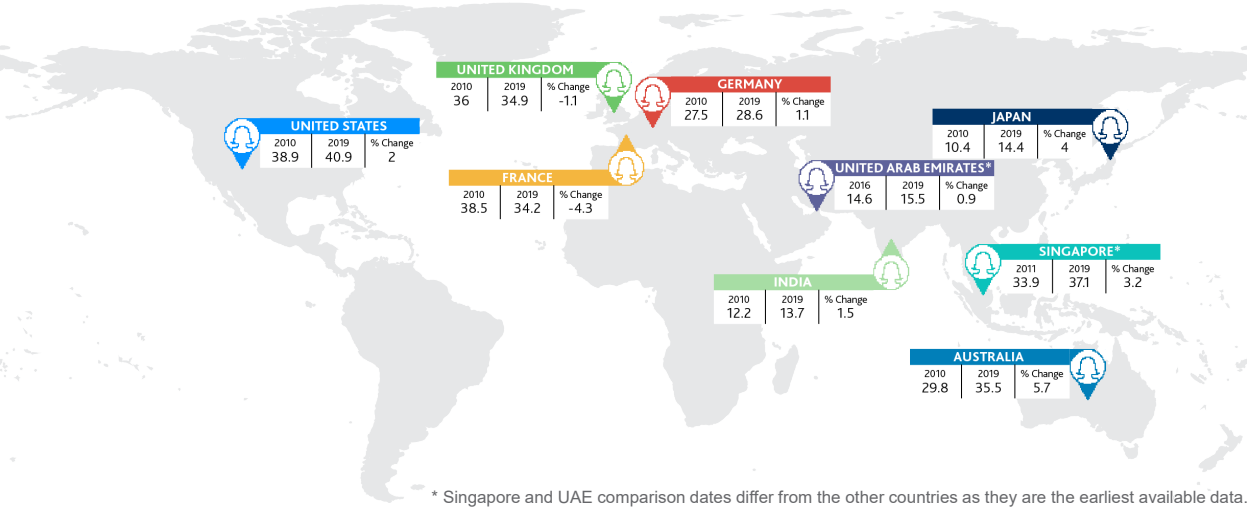
Limited and divergent progress has been made elevating females in the workplace.

BY DAWN HOLLAND AND KATRINA ELL

Achieving gender equality lies at the heart of the U.N. Sustainable Development Goals that all U.N. member states agreed to achieve by 2030. That target remains a long way off. According to the World Economic Forum's Global Gender Gap Index, which measures gender parity across economic, educational, health and political dimensions, at the current rate, it will take 132 years to reach full parity.

In this note, we focus on one narrow dimension of the gender gap: the proportion of women in senior and middle management positions. This proportion lags men by a significant margin across the globe.

Chart 1: Share of Females in Middle and Senior Leadership Positions



Sources: ILO, Moody's Analytics

Limited and divergent progress has been made in elevating females in the workplace over the past decade. In some countries, progress towards gender equality in the workforce seems to be headed in reverse—in the U.K., France and Turkey, the share of women in senior and middle management positions declined from 2010 to 2019.

Gender gaps vary significantly across sectors. Historically male-dominated sectors, including mining and construction, have a much lower representation of female managers compared with the health and social work and education sectors.

Table 1: Share of Female Leaders by Sector, G-20 Average

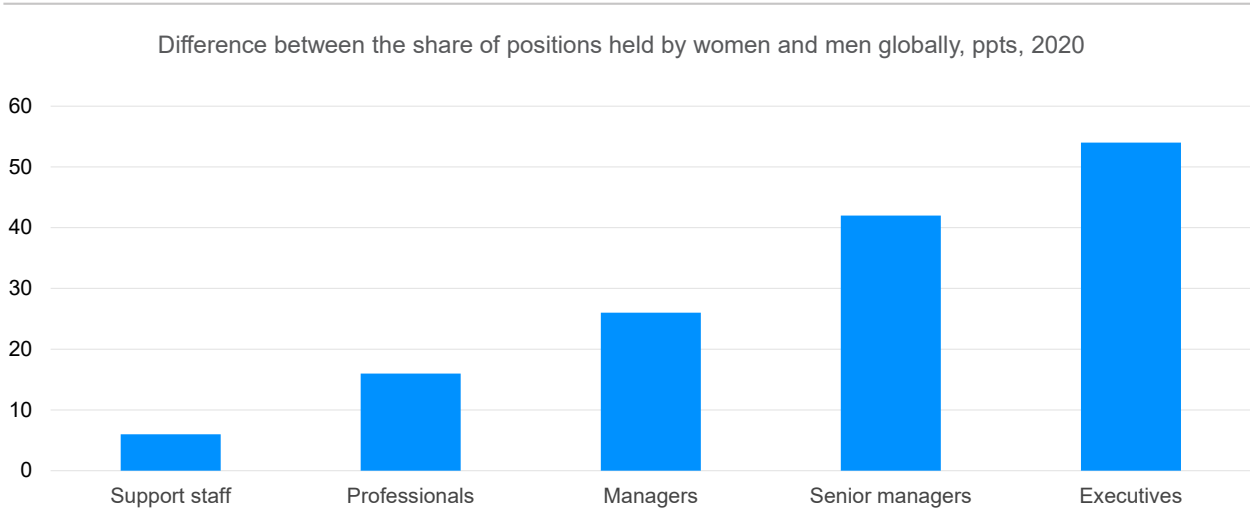
	%
Health and social work	67.1
Education	61.0
Financial services	45.1
Public admin and defence	42.9
Professional, scientific and technical	41.2
Information and communications	32.9
Manufacturing	26.6
Mining	19.6
Construction	13.7
Avg	38

Sources: ILO, Moody's Analytics

Sectors expected to drive future productivity, including information and technology via the increasing digitisation of the economy, have a much lower share of female leaders than other service sectors. This alone suggests that women are primed to miss out on the potential wage and income gains from this rapidly expanding sector.

In all sectors, gender gaps widen as you move up the seniority ladder. Globally, only 23% of executive roles are held by women.

Chart 2: The More Senior the Position, the Wider the Gender Gap

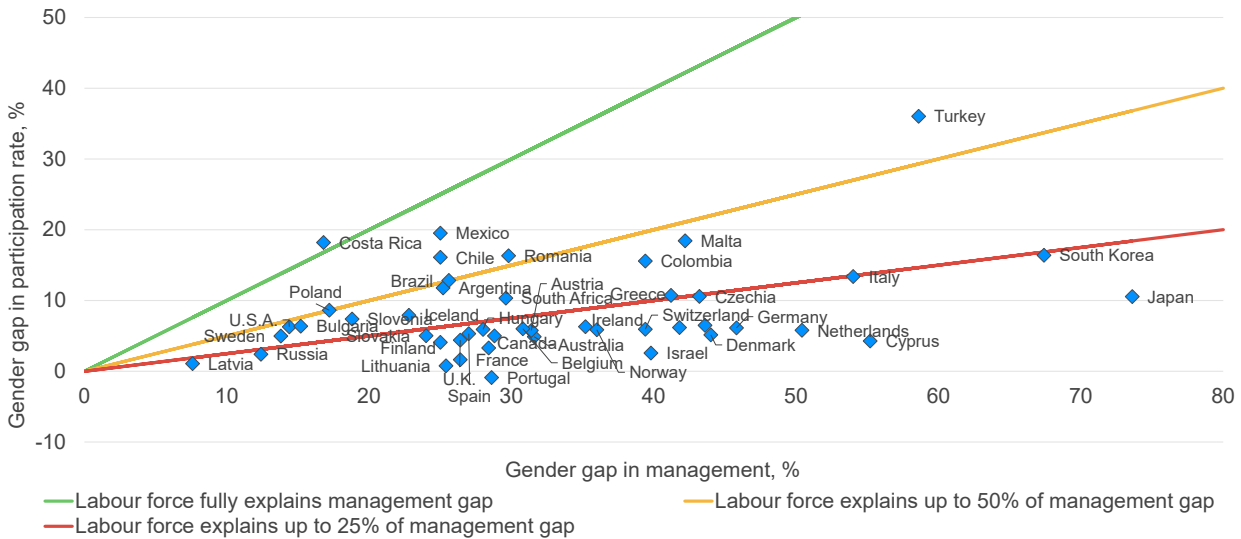


Sources: Edwards, R., Guzzo, R., Jackson, C., Knoepfmacher, A., & Nalbantian, H. (2020). Let's get real about equality: When women thrive 2020 global report. Mercer, Moody's Analytics

Can labour force participation explain the gender gap in management?

Labour force participation also displays a wide gender discrepancy in most countries. But, except for a handful of countries—Costa Rica, Mexico, Chile and Turkey—the gender gap in labour force participation can explain less than half of the gender gap in management positions.

Chart 3: Can Labour Force Participation Explain the Gender Gap in Management?



Sources: OECD, ILO, Moody's Analytics

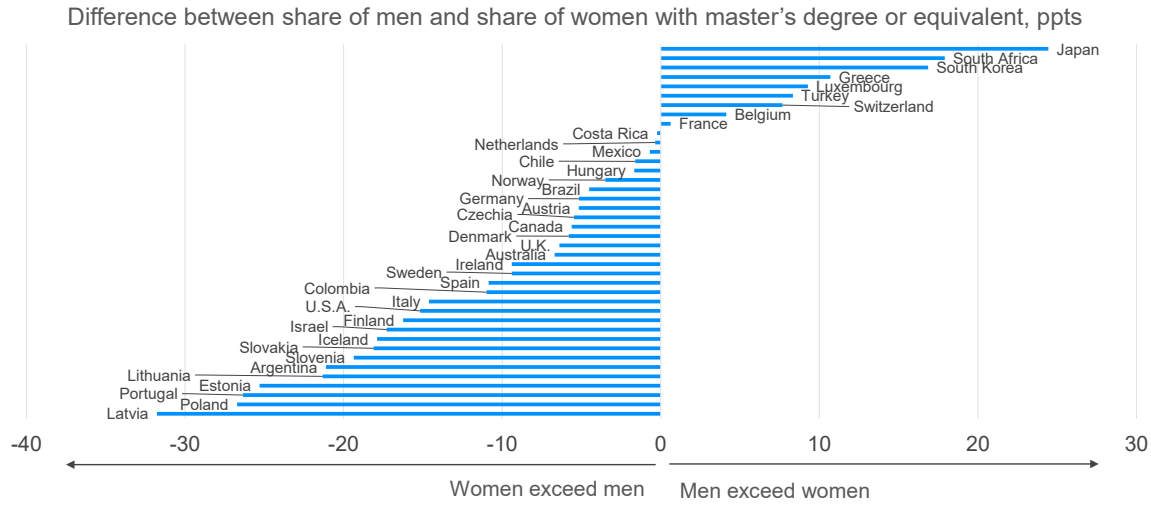
In most countries, the labour force participation gap explains less than one-quarter of the gender gap in management roles. Japan and South Korea stand out with exceptionally high gender gaps in management.

Does the skills gap explain the gender gap in management?

If the gender imbalance of the aggregate labour pool can explain only a fraction of the gender imbalance in management, perhaps the gender management gap reflects a skills mismatch. Do female youths devote less time to educational attainment than their male counterparts, leading to women that lack the foundation skills needed to excel in management?

On the contrary, the opposite tends to be true. In most OECD countries and major emerging markets, the number of women age 25 to 64 with a master's degree or equivalent exceeds that of men.

Chart 4: Can Educational Attainment Explain the Gender Gap in Management?



Sources: OECD, ILO, Moody's Analytics

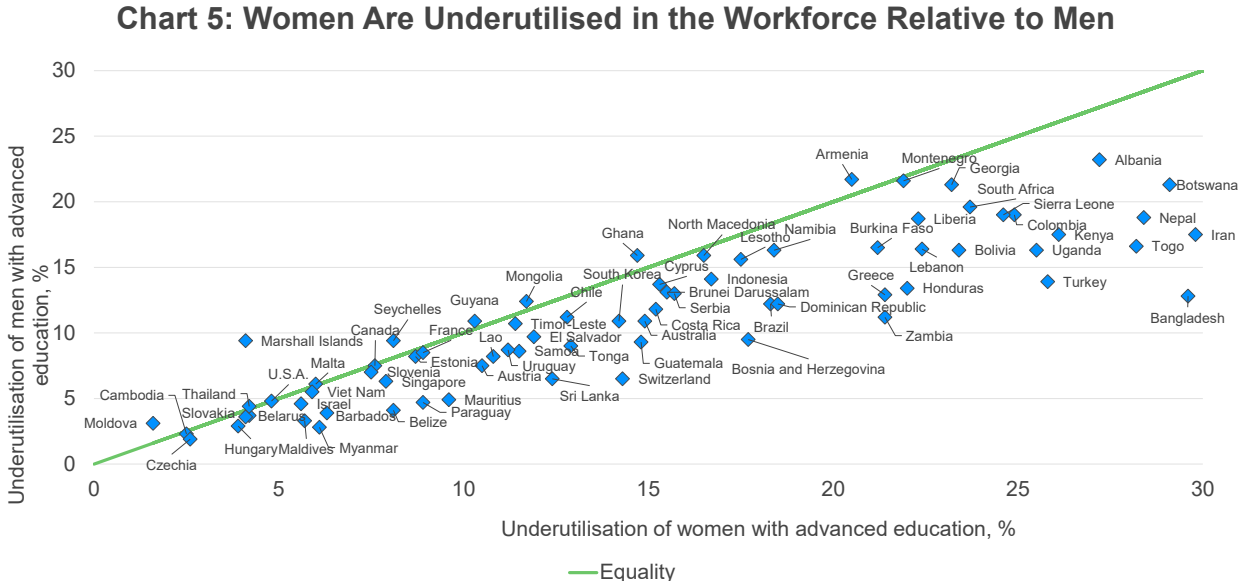
Female education gaps in Japan and South Korea do go some way to explain their very high gender gaps in management positions, but there are also other factors at play, including insufficient childcare and low utilisation of paternity leave.

Japan attempted to address its low proportion of female leaders in 2016 with the Act on Promotion of Women's Participation and Advancement in the Workplace. The act compelled firms with more than 300 employees to develop action plans to foster female leadership development. But this was insufficient to achieve its goal of having females occupy 30% of managerial positions by 2020.

Women are consistently overqualified for their jobs

If women achieve higher educational attainment than men but are significantly underrepresented in middle and senior management roles, we can draw two conclusions: The returns on education are lower for women, and this reflects a consistent 'underskilling' of women in the workforce. On average, women make a higher upfront investment in education but tend to land in lower-level and lower-paid positions, employed below their skill level, as measured by their educational accomplishments.

More broadly, measures of labour underutilisation, which include people who want to work more hours than their current employment allow, systematically show that the underutilisation rates of women exceed those of men across a broad spectrum of advanced, emerging and developing economies, with rare exceptions including Armenia, Ghana and Mongolia. This is true at all levels of education.



Sources: ILO, Moody's Analytics

Be what you can see

A more difficult concept to quantify is around leader identity. It is easier for a female to identify as a leader when there are other female leaders in similar industries and, more broadly, across society. Women can struggle to identify as leaders when they have limited exposure to female leadership networks. As a result, it may be difficult for females to develop their identity as a leader and motivate themselves to pursue lead-

ership opportunities. There is more evidence of this in societies where prominent female leaders are not present, including in Japan.

Economic potential suffers worldwide from the “underskilling” of women

The underutilisation of women in the workforce, in terms of underutilising their skills and time, causes an economic loss at the individual and macroeconomic levels. Bridging the gender gap in management positions and raising women in the workforce to their potential would raise productivity and economic output across the globe.

Based on a simple back-of-the-envelope calculation, closing the gender gap in labour force participation and the gender gap in management in OECD countries can raise global economic activity by approximately 7%, or about \$7 trillion in today's dollars. Closing the gaps in large emerging economies, including India, would raise that potential further.

This boost to economic activity stems from a rise in the number of people in work, with more women joining the labour force and an increase in productivity, as a greater share of women become employed in more productive managerial and professional roles.

Quantifying the benefit

We can quantify the benefit by disaggregating potential output into potential employment and labour productivity. The rise in potential employment is calibrated as the percentage increase in the number of people in the workforce across the OECD if the labour force participation of women age 25 to 64 were equivalent to the labour force participation of men age 25 to 64 in 2021. This alone would raise potential output in the OECD by nearly 10% and global output by 6.2%.

To calibrate the rise in potential productivity, we make use of the simplifying assumption that wages should closely track productivity. This follows from a standard set of profit-maximizing conditions, holding various behavioural patterns and preferences constant. While many caveats are attached to this assumption, it provides a useful benchmark.

We draw on average wage differentials between female managers, female professionals, and other female employees in the U.S., Germany, France, Italy, Spain and the U.K. in 2021 to calibrate an estimate of potential productivity growth. On average, female managers were paid 89.6% above the average wage, and female professionals earned 37.3% more than the average, which gives us the productivity factors of 1.896 for managers and 1.373 for professionals.

Exploiting historical data on employment in the OECD by occupation, which splits out managers, professionals and other occupations, we calibrate a baseline productivity level from the shares of managers, professionals and others employed in the OECD in 2021, applying these productivity factors. We then ask, how many more managers and professionals would there be if the share of female managers increased from 37% to 50% and the share of female professionals increased from 42% to 50%? A fraction of this rise will be met by the rise in female labour force participation, with no net impact expected on labour productivity if there is a proportional rise in other occupations. But the excess rise in managers and professionals to meet the 50% targets draws women out of lower-productivity occupations, leading to a net rise in potential productivity of 1.1% in the OECD, raising potential global output by about 0.7%.

Conclusion

Improving gender parity in management positions has the potential to unlock higher economic prosperity across the globe. Surveys on the root causes of the gender gap in management point to the heavier burden of family responsibilities carried by women, a lack of access to the same kind of connections as men, women being less likely to ask for promotions, as well as women being held to higher standards than men. Shifting social norms is a lengthy and complex process, but policies such as enforcing flexible working conditions and providing affordable childcare as well as paid maternity and paternity leave help to drive change in the right direction. This would be particularly beneficial for developing economies, where the economic potential that would be unlocked from improved gender equality is higher than in developed nations.

About the Authors

Dawn Holland is a director of economic research at Moody's Analytics, where she focuses on European economies and climate modelling. Her background is in macroeconomic modelling and forecasting, with a focus on fiscal policy and modelling interactions between the macroeconomy, poverty, inequality and the environment. She previously served as chief of global economic monitoring for the United Nations Department of Economic and Social Affairs in New York and headed the macromodelling work of the National Institute of Economic and Social Research in London. Dawn holds an MSc in economics from the London School of Economics and a BA in Soviet and East European studies from Tufts University.

Katrina Ell is an associate director and economist in the Sydney office of Moody's Analytics. Katrina manages the Asia-Pacific edition of Economic View and is responsible for the research and analysis of economies throughout the Asia-Pacific region. Katrina is regularly quoted by international media such as CNBC, Bloomberg, The Wall Street Journal, Financial Times and Sky News. She previously worked as an analyst at the Australian Prudential Regulation Authority. Katrina received her bachelor's degree in economics (honors) from Macquarie University.

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