

## **Aggregate Effects of Gender Gaps in the Labor Market A Quantitative Estimate** (Cuberes and Teignier, 2016)

Labor gender gaps can be considered a misallocation problem. Highly skilled women could not be allowed to work in highly skilled companies because certain restrictions. This leaves a high-skilled job to a medium skilled male. The differences in required skill and actual worker skill causes inefficient distribution of labor. Discussed in a previous paper<sup>1</sup>, misallocation can lead to a lower GDP.

This paper looks at the gender gap in entrepreneurship. The OECD (2012) on a report called Closing the Gender Gap, points two interesting facts on women entrepreneurship: they use less external credit than male entrepreneurs and the average income of women run companies are less than men's.

### **One Sentence Summary**

A gender gap in entrepreneurship can decrease total income and average income in both developing countries and developed countries.

### **Main Findings**

Using a mathematical model, they measure how much does a gender gap in entrepreneurship hurts the economy. They gave agents (male and female) three labor choices: being an employee, self-employed or employer. The last two are considered entrepreneurship. Additionally, everyone has a "entrepreneurship ability", the higher the ability the more successful an agent is being self-employed or an employer.

Men can freely choose between the three choices. On the other hand, a portion of women cannot become employers, another can't be entrepreneurs (not being able to choose self-employment and employer) and some can't even work. This is the gender gap proposed by the authors.

In the OECD the presence of gender gap, on average, can reduce the economy's income in 15%. In other words, if women and men can freely choose in the labor market, the GDP per capita could increase in the same amount.

They extend this study to developing countries by adding a fourth possibility: out-of-necessity self-employment. On these countries a portion of the population will create a new company because no one else will hire them. With this additional characteristic, they find a 17% loss of income when women are restricted to choose. Which is a greater loss than developed countries.

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<sup>1</sup> See Misallocation and Manufacturing TFP In China and India (One-page econ #6) for an example of input misallocation for China and India.

## **Concluding Remarks**

Reducing gender gaps should be one of the main concerns of current governments. Nonetheless, more studies are needed to have a practical impact. The paper only measures the negative effect of the gender gap but is elusive when arguing what could cause it.

An extension of the paper should pick one of the possible reasons for the gender gap like women's restriction to credit and analyze the macroeconomic effects. In this way governments can focus their policies on financial market to reduce the gender gaps and improve their GDP at the same time.

## **References**

- Closing the Gender Gap, 2012. , Closing the Gender Gap: Act Now. OECD. <https://doi.org/10.1787/9789264179370-en>.
- Cuberes, D., Teignier, M., 2016. Aggregate Effects of Gender Gaps in the Labor Market: A Quantitative Estimate. J. Hum. Cap. 10, 1–32. <https://doi.org/10.1086/683847>.