Gender pay gap is hurting productivity

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Gender income inequality in Australia is now considerably above the OECD average of 15.5 percent.

Narrowing the wage gap between men and women would not only deliver equal income, but boost Australia's long-term productivity, research shows.

Government data shows that the gender pay gap for full-time employees,

across all industries and occupations is 23.1 percent. This means, on average, that women earn A$26,853 less per year than men.

We looked at the Australian Bureau of Statistics' average weekly ordinary time earnings (AWOTE) data from 1986 to 2013, and controlled for other factors that affect labour productivity.

All else being equal, we found that gender income inequality adversely affects productivity.

In fact, a 10 percent reduction in gender income inequality can boost labour productivity by up to 3 percent. Put another way, eliminating Australia's existing gender wage gap would lift long-term labour productivity growth by 5.7 percent.

Lower pay inequality lifts productivity by making it easier for companies to attract and retain talent. Moreover, an equal playing field creates incentives for individuals to maximise their effort, regardless of gender.

As a point of comparison, if we increased the number of people in the workforce with a university degree by an equivalent amount, it would only boost labour productivity by 1.3 percent.

This means businesses and governments can no longer afford to ignore this important social issue. It disadvantages everybody in the long run.

The history of the problem

Early arguments for the need to redress gender inequality were framed in terms of social justice. Proponents of this approach stressed the importance of any benefits being more equally shared across society.

In Australia, the Equal Pay for Equal Work decision of 1969 and the

Equal Pay for Work of Equal Value decision of 1972 were the first steps taken to close Australia's gender wage gap.

Human rights and social justice activism throughout the 1970s led to anti-discrimination and affirmative action legislation being enacted in the 1980s.

However, a lack of traction on the social justice argument with employers saw the momentum for change slow by the early 1990s.

Throughout the 1990s, the free market gained increasing influence on public policy. In this context, the business case for increasing female labour force participation garnered growing support and contributed to a further reduction in gender wage differences.

More to do

Between 1986 and 2016, female labour force participation increased from 48.2 percent to 58.8 percent. Meanwhile, Australian gender income inequality is now considerably higher than the OECD average.

Equal pay cases and legislation achieved limited success in narrowing the gender wage gap. But they failed to address other structural drivers of wage inequality, such as gender-based occupational segregation.

Women are still more likely to be employed in traditionally feminised occupations, which are lower-paid and often part-time. This only serves to exacerbate the income gap.

This is part of the reason why simply increasing women's labour force participation has not been enough to address the gender wage gap. Gender inequality is a multi-dimensional phenomenon.

Further progress needs to be made in reducing occupational segregation if gender based income differentials are to be eliminated. To accomplish this we need to address the cultural factors that shape women's education and employment preferences.

The gender pay gap is not just bad for social justice; it also negatively impacts the nation's hip pocket. Policymakers need to realise that by increasing equality we can also boost our economy.

More information: Tom Kennedy et al. Reducing gender wage inequality increases economic prosperity for all: Insights from Australia, *Economic Analysis and Policy* (2017). DOI: 10.1016/j.eap.2017.04.003

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