

Is workplace equality the economy's hidden engine?

27 January 2020, by Dylan Walsh



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In 1960, 94 percent of doctors and lawyers were white men. Today that number has fallen to 60 percent, and the economy has benefited dramatically because of it.

In a song from 1989, Laurie Anderson interrupts herself partway through to give a mini-lecture on wage parity between men and women. For every dollar that a man makes, she explains, a woman makes 63 cents. A half-century earlier, that figure was 62 cents. "So, with that kind of luck," she says, clearly troubled, "it'll be the year 3,888 before we make a buck."

It's a raw take on a problem that economists have studied deeply. "There's a huge literature in [labor economics](#) on discrimination and wages and labor force participation," says Charles I. Jones, the STANCO 25 Professor of Economics at Stanford

Graduate School of Business.

As a macroeconomist, though, Jones recognized a striking gap in this line of inquiry. "People have said things like 'discrimination reduces wages by X amount,' but no one has tried to add up the effects and find out the aggregate consequences of these problems in the labor market."

With three colleagues, Jones did just this, recently publishing the findings in the journal *Econometrica*. The results are remarkable: Conservatively, 25 percent of growth in U.S. GDP between 1960 and 2010 can be attributed to greater gender and racial balance in the workplace, the researchers found. The number could be as high as 40 percent.

Reallocating Talent

In 1960, roughly 94 percent of doctors and lawyers in the U.S. were white men. Fifty years later, this number was closer to 60 percent. By modeling the way in which this skewed distribution changed, Jones and his colleagues were able to uncover how balance in the workplace contributes to GDP.

The [mathematical model](#) they use rests on a single, straightforward assumption: The distribution of talent for most professions is the same for men and women of all different races. (Exceptions exist in occupations that require physical strength, like construction.) Given this assumption, the demographic profile of, say, lawyers should mirror the gender and racial demographics of the United States.

"The 94 percent figure, of course, is really, really, really far from that," Jones says, "which suggests that in 1960, you had all these not-very-talented white men who were doctors and lawyers and lots of extremely talented people from other groups who were excluded. In the past 50 years, these groups have been changing places."

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This replacement of mediocrity with talent, Jones says, is what accounts for an increase in GDP. It also leaves a mark on the take-home pay of [white men](#), accounting for a roughly 12 percent drop in their earnings.

"There is, of course, a cost to consider as white, male doctors and lawyers and other professionals are replaced by, or competing with, other people," Jones notes. But on the other side of this cost are notable gains: Greater opportunity over the last 50 years has contributed to 29 percent of earnings growth among black men, 51 percent among black women, and 77 percent among white women.

Reducing "Friction"

Jones and his colleagues describe barriers to employment as "frictions." These can take any number of forms. They can be outright discrimination from employers unwilling to hire women or minorities. They can arise through lack of educational opportunities for particular groups. And they can reside in social norms that, for example, dissuade women from entering the workforce.

"Over the last 50 years, more than a quarter of all growth in the U.S. GDP is attributable to these declining barriers in the labor market," he says. "If we ask where, specifically, that growth came from, much of it is from women moving out of the home sector and working in the market, especially in highly skilled occupations."

Interestingly, despite the gulfs in employment prospects—a woman in 1980 was 250 times more likely to be a secretary than a [lawyer](#)—Jones found that the wage gap remained relatively stable across professions. That is, both female lawyers and secretaries historically made about 30 percent less than their male counterparts.

"Discrimination really shows up in specific employment opportunities," Jones says. "But it shows up on average in wage differences." The reason for this is that early female lawyers were exceptionally talented—the Sandra Day O'Connors and Ruth Bader Ginsburgs of the world—and their monumental talent offset some of the financial discrimination that they faced.

"The key insight, though, and what I find interesting and surprising is this: Looking back at the world in the 1960s, it is stunning how big the differences were in terms of men and [women](#) and blacks and whites in the workplace," Jones says. "We're far closer to an equitable balance today, and it's important to be aware that such gains aren't simply good for the groups that most obviously benefited, but for the economy as a whole—for all of us."

More information: Chang-Tai Hsieh et al. The Allocation of Talent and U.S. Economic Growth, *Econometrica* (2019). [DOI: 10.3982/ECTA11427](https://doi.org/10.3982/ECTA11427)

Provided by Stanford University

APA citation: Is workplace equality the economy's hidden engine? (2020, January 27) retrieved 1 March 2021 from <https://phys.org/news/2020-01-workplace-equality-economy-hidden.html>

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