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GENDER INEQUALITY AS A DETERMINANT FOR ECONOMIC GROWTH

Abstract

This paper analyses how untapping women potential can influence the economic growth. Recent papers and discussions on this subject have shown that economic policies that empower women economically can stimulate outcome, productivity, diversification and ultimately economic growth of the economy. Therefore introducing “gender” or so called “pink” lens when designing economic policies can significantly improve economic performance of a country. The paper than shows how tackling different dimensions on gender inequality can influence economic development of Republic of North Macedonia. Designing policies aimed at closing gender gap in the country can significantly boost output and economic growth.

Key words: gender inequality, economic growth, economic development

JEL Classification: O40, J16, O1

INTRODUCTION

Gender inequality attracts attention to many researchers and practitioners of economic development policies, especially in the context of the new tehnological developments, digitalization, greening of economies and recent economic turmoils derived from the recent Covid-19, energy and war crizes. Unpredictible economic envinronment accompanied with the demographic fluctuation and decrease of population, has led the discussions towards mobilizing untapped potential of the women. This is profoundly interesting for creators of economic policies which are confronted with steady or slow economic growth and especially for the emerging and developing countries where gender gap is high and more and more theories are confirming the causality between economic development and gender inequality in the countries.

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Data shows that countries with smaller gender gap are also countries which have more service oriented economy, more produce and export diversified economy, higher growth potential, and higher productivity.

Tackling gender inequality is multidimensional and complex policy which encompasses measures aimed at several different dimensions-outcomes (wage gap, labour participation, unpaid work), opportunity (education) and representation (political, CEO, pink quotas).

Despite the fact that gender inequality has broadly declined over the past 30 years, the progress is not even in all countries or for all women, not even in different dimensions. The gender gap tends to affect more poor women in poor countries, and all other factors such as remoteness, ethnicity compound each other.

Therefore, policies aimed towards more economically empowering women, can be critical in order to ensure higher growth rate and more diversified economy.

Data shows that even though faster progress has been achieved on labor force participation, education, & legal rights dimensions, still there is much work to be done in the area of job segregation, pay gaps, unpaid work and representation- meaning more women on decision making roles in politics and in business as well.

This paper aims to analyze the role of gender inequality in economic growth. In the first chapter we will analyse literature which shows how womens empowerment or gender equality can boost economic development of the country. The second chapter we will analyse different sets of data for Republic of North Macedonia and will try to establish causality between gender inequality and different indicators of economic growth, which will guide us to the last chapter where we will be drawing conclusions for further policy measures for closing the gender gap in order to boost economic growth of the country.

1. GENDER INEQUALITY AS A FACTOR FOR ECONOMIC GROWTH

When we talk about gender inequality, one would probably assume that we are discussing the dimension of human rights which provide us with the equity between man and women. But, when we look at gender inequality as an economic determinant, it seems that the interest of the economic practitioners is rising. This is especially true when studies show that the more inclusive

economy -the more resilient and efficient economic performance, therefore it is smart economics to include women perspective into designing economic policies.

Most of the analytical work on the causality between gender inequality and macroeconomics has shown that gender inequality is negatively correlated with level of income and GDP growth overtime.

UNDP developed a tool which measures gender inequality in a composite index called Gender Inequality Index (GII). GII reflects gender-based disadvantage in three dimensions— reproductive health, empowerment and the labour market. It shows the loss in potential human development due to inequality between female and male achievements in these dimensions. GII: scaled between 0 and 1, higher values indicate higher gender inequality. One IMF paper links the multidimensional UNDP Gender Inequality Index with GDP per capita growth. Higher gender inequality is associated with lower economic growth.¹

However, establishing clear causality between different dimensions of gender inequality and macroeconomic indicators is a challenging task.

While many studies focus on the potential loss for the country with higher gender gap (Hsieh et al., Cuberes & Teignier, 2016, Klassen 1999), others focus on possible gain by tackling different dimensions of the gender inequality, that is: outcomes, opportunity and representation (Penings 2022, Ostry, Alvarez, Espinoza, Papageorgiou 2018, Lagarde and Ostry 2018). Even though very complex and multidimensional, dependent on different set of factors to include- social norms, culture, level of economic development etc., several determinants of gender inequality have causality with different determinants of economic growth.

Let's observe basic dimensions of the gender inequality:

- Outcomes: labour participation, wage gap, unpaid work
- Opportunity: education
- Representation: political, CEO

The first and most used assumption will be the one connected to labour participation and its effect on the economic growth. If we agree that human capital is one of the key determinants of economic growth, improving female labour participation, not only quantitative, but, rather qualitative in terms of better skills match, better jobs and pay, we could agree that including women

¹ González and others. 2015. "Catalyst for Change: Empowering Women and Tackling Income Inequality". IMF SDN 15/20, October 2015, pg. 6

into the labour market would lead to higher economic growth rates.

Unleashing women potential have positive impact on productivity and innovation, bringing new perspectives and creating products and services which are created using women's "lens". That leads to more diversification in output, and more diversified exports.² Gender gaps in economic participation restrict the pool of talent in the labor market and can thus yield a less efficient allocation of resources and total factor productivity losses and lower GDP growth (Cuberes and Teignier, 2015; EsteveVolart, 2004).

In countries facing a shrinking workforce, raising economic participation, including of women, can directly yield growth and stability gains by mitigating the impact of a decline in the labor force on growth potential and ensuring the stability of the pension system (Steinberg and Nakane, 2012).

Steven Pennings created Gender Employment Gap Index to calculate the the potential gains of including women into the labour market.³ Across all countries the basic and full GEGIs both average 19%, which indicates that long run GDP per capita would be almost 20% higher than otherwise if all gender employment gaps were to be closed.

While social norms and other unmeasurable determinants will largely affect women decision to join the labour market on the first place, wage gap remains one of the main and most difficult challenges even for advanced economies. Globally, women earn 20% less than men.⁴ Even though some measure wage gap as difference in overall income created by men or by women, others measure the difference in pay for the same job. Whatever methodology is used, the factors underlying both differences – on income or same job level, remain similar or same: social norms which prevents women for acquiring proper education or prevents them from entering the labour market; so called "child penalty", or the loss of income during the time of pregnancy and childcare for women; unpaid work, which is considered both work at home in taking care of the household-domestic services, children or elderly, and work at family businesses or farms with no reimbursement; legal setbacks preventing women for having its own business, like inheritance laws and similar. Wage difference should take in consideration informality in labour market. Data shows that in

2 Kazandjian et al (2016) "Gender Equality and Economic Diversification." IMF Working Paper 16/140

3 Pennings, Steven, A Gender Employment Gap Index (GEGI). A Simple Measure of the Economic Gains from Closing Gender Employment Gaps, with an Application to the Pacific Islands, Policy Research Working Paper 9942, World Bank Group, Development Economics Development Research Group February 2022

4 ILO Global Wage Report 2018/19

many countries informality affects women more profoundly than man.

Not all economic sectors show comparable levels of gender equality, with services being much more equal in both developing and developed economies. The male-to-female employment ratio is 1.7 on average in the services sector, 2.6 in manufacturing, and 4.6 in agriculture. There is compelling evidence that countries experiencing faster growth in services also posted greater gains in gender equality.⁵

This creates a hypothesis that structural transformation towards services sector is more gender inclusive, since women tend to be more part of the service sector.

But, Chant and Sweetman challenge this hypothesis by the fact that the progress in women's educational credential did not follow the changes in gender segregation patterns, which means that women's skills development need to be demand driven. Or in simple words, you can not promote supply side measures in order to foster structural transformation in economy towards service sector, but rather let the market do its job and in this context women's skills development needs to be demand driven. (Chant and Sweetman 2012)⁶

Seguino also agreed that simple removing barriers to entry and increasing women's labour force participation will only exacerbate occupational segregation, worsening, instead of improving, the working conditions of both women and men (Seguino 2016).⁷

Alonso at all (2019) analysed the causality between unpaid care work and economic growth. Simulation made with putting in correlation hours of unpaid work and GDP growth per capita showed that higher the income is, countries spend less time on unpaid work. There is a negative correlation with female labor force participation and also simulation showed significant GDP gains from reducing barriers associated with gendered time spent on unpaid care. On average, women spend 2 hours more than man on unpaid care work.⁸ Gender gaps in time dedicated to household and care work impact women's ability to participate in the labor market, invest in education and training, and access economic opportunities.

5 Jonathan D. Ostry, Jorge Alvarez, Raphael Espinoza, and Chris Papageorgiou, Economic Gains from Gender Inclusion: New Mechanisms, New Evidence, IMF Staff Discussion Note, October 2018

6 Chant, S.; Sweetman, C. 2012. "Fixing efficiency approaches, and gender equality in development", in *Gender & Development*, Vol. 20, No. 3, pp. 517–29

7 Seguino, Stephanie. 2016. "Global trends in gender equality", in *Journal of African Development*, Vol. 18, No. 1, pp. 1–30

8 Cristian Alonso, Mariya Brussevich, Era Dabla-Norris, Yuko Kinoshita, and Kalpana Kochhar, Reducing and Redistributing Unpaid Work: Stronger Policies to Support Gender Equality, IMF Working Paper, October 2019

Taking in consideration all factors, simple labour participation is not enough to close the gender gap, but rather labour participation on higher payed jobs, good quality jobs, more female entrepreneurs, business owners and employers, higher representation, especially on governing boards of companies.

This takes us to the education as a factor for gender inequality. In general, higher levels of education, specifically tertiary education, increase the probability of labor market participation. In developed countries, where levels of education and tertiary enrolment rates are high for both men and women, gender differences in the field of study become more important in determining labor market outcomes. “Occupational and sectoral segregation by gender is remarkably persistent and a major contributor to gender wage gaps’ Borrowman and Klasen (2020). In a cross-country study, Klasen (1999) shows that 0.4 to 0.9 percentage point of the difference in growth rates between East Asia, sub-Saharan Africa, South Asia, and the Middle East can be explained by differences in gender gaps in education.

Choosing the education which will lead women towards better payed jobs is the key determinant for gender equality. Even though the occupational choice model shows how this decision is determined by preferences, leisure and consumption, choosing the right education is one step closer to better job and higher wage prospects. For instance- women tend to be underrepresented in STEM education, one of the highest growing and largely unaffected by unemployment sectors. A study performed by European Institute for Gender Inequality showed that getting more women into STEM (science, technology, engineering and mathematics) education will have a positive impact on economic growth in the European Union ⁹ Closing the gender gap in STEM would contribute to an increase in EU GDP per capita by 0.7-0.9 % in 2030. By 2050, the increase is between 2.2 % and 3.0 %. In monetary terms, closing the STEM gap leads to an improvement in GDP by EUR 610-820 billion in 2050. Closing the gender gap in STEM could lead to an additional 1.2 million jobs. Higher productivity of STEM jobs is likely to result into higher wages (European Parliament, 2015). Increasing labor supply in STEM sectors and increasing women’s access to higher payed jobs ultimately leads to higher productivity and competitiveness, by efficient utilization of talent leading to smart growth.

⁹ European Institute for Gender Inequality, Economic benefits of gender equality in the EU: How gender equality in STEM education leads to economic growth, 2017

And lastly, to tackle on representation and why it matters for the economic growth. When we are talking about representation, this includes not only representation in politics or business, but also in family and society overall. This is mostly driven by different spending preferences women have. Women tend to spend more on households and children, including their education which ultimately leads to better economic perspective and therefore economic growth. When women are underrepresented, than formal and informal institutions will most likely favorise man, it's a vicious cycle. Female representation in the public sector translates into greater social spending on education, health, child care and environmental protection. Studies on female representation in executive positions, showed that companies within the top quartile of female presence at the executive level were more likely to outperform their peers on profits (by 21%) and longer-term value creation (by 27%) (Hunt, Dixon-Fyle, Prince, Yee, 2018).

World Economic Forum's Global Gender Gap Report for 2024 shows that for the past eight years, women increased its representation in senior leadership from a 30.4% share in 2016 to a 32% share in 2023.

Inclusion of women as users, providers and regulators of financial services can enhance economic growth and foster greater stability in the banking system. Sahay et al. (2017), Sahay and Cihak (2018) analysed women representation in financial service industry. The results were that banks with boards with a higher percentage of women have a lower share of non performing loans, higher capital buffers and greater stability. Increasing the number of women on bank boards can improve performance (Owen & Temesvary, 2018) and is associated with higher revenue and funding (Khera et al., 2022). Female-led Fintech firms are more likely to serve female clients (Khan & Ruh, 2020).

2. GENDER INEQUALITY IN REPUBLIC OF NORTH MACEDONIA

What is the situation in Republic of North Macedonia? With GDP per capita continuously rising from 1990 when it was 2299,04 US \$ to 6591,47 US\$ in 2022, and GII continuously dropping from 0.429 in 1990 to 0.134 in 2022, we can unarguably suggest that there is a negative correlation between the Gender Inequality Index and economic growth in the country, that is there is an improvement in gender inequality index which corresponds to the economic growth measured in GDP per capita.

The labour force participation rate gap remains high and persistent at 21,9 in 2022 with only slight change from 1990 when it was 22,8%. That means that the opportunity cost of the government policies is high, due to the fact that there is a loss of gain from investing in education policies which eventually did not manage to close the gender gap in labor force participation.

According to the latest Survey of State Statistical Office- Women and Man in North Macedonia from 2023¹⁰, 59.3% of inactive female population age 20-64 in 2020 has answered that their inactivity is due to domestic duties compared to only 2,3% of inactive man in the same age group. That practically means that 163201 women in the country is not engaged economically because they are involved in unpaid domestic and care work which is wasted talent.

A study from 2020, performed by Re-actor, calculated the minimum monetary value of unpaid work in Republic of North Macedonia on a yearly bases is 119.8 billion denars or approximately 1,94 billion euros, which represents 17,18% of the GDP for 2019. ¹¹

When we compare the proportion of time spent on domestic and care unpaid work between men and women, data show that women spend 15.4 % of the day or 3.7 hours per day on unpaid work compared to man which spend 5.42% or 1.3 hours per day. ¹² That means that women spend around 2.4 hours more than man on domestic and care unpaid work which is more than the world average of 2 hours.

Of the total number of employers in North Macedonia in 2021, only 19% are women. Similarly, 78% of the self-employed are men while 22% are women.

Data on female tertiary education graduates in STEM¹³ education fields (% of all tertiary education graduates in STEM education fields) from EUROSTAT shows progressive growth comparing results from 2015-45,1% to 2022 48,2%. These data show that North Macedonia has much higher women representation in STEM education when comparing to EU 27 average, which is 35,4 in 2022. But, deeper analysis in data from the State Statistical Office survey on Men and Women shows that results are due to higher female graduates

10 State Statistical Office, Жените и мажите во Северна Македонија, 2023

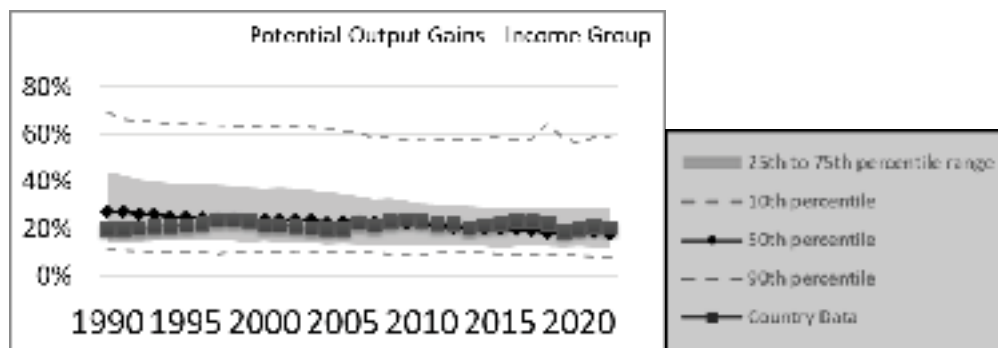
11 Re-Actor, ПЛАТЕНА И НЕПЛАТЕНА РАБОТА, РОДОВО-БАЗИРАНА ДИСКРИМИНАЦИЈА И РАБОТНИЧКИ ПРАВА ВО ВРЕМЕ НА КОВИД-19, April 2020

12 World Bank Data Portal, NORTH MACEDONIA GENDER LANDSCAPE, <https://liveprod.worldbank.org/en/economies/north-macedonia>

13 STEM fields are classified as ISCED-F 05 (natural sciences, mathematics and statistics), 06 (information and communication technologies) or 07 (engineering, manufacturing and construction).

in natural sciences, mathematics and statistics -208 out of 292 students or 71,23%, whereas ratio of female graduates is much lower in ICT being one of the most propulsive sectors with 173 female vs 344 male graduates or only 33,46%.

Graph 1. Potential Output Gains from closing labor participation gap for North Macedonia compared to emerging economies income group



Source: IMF toolkit developed using model by Ostry, Alvarez and Papageorgiou (2018)

Toolkit used the model developed by Ostry, Alvarez and Papageorgiou (2018) estimate the economic gains from closing labor participation gaps between men and women. The data displayed in Graph 1 benchmark the country of interest against peers. In terms of potential output gains, Republic of North Macedonia stand better compared to the average of its counterparts in the Emerging economies group. The model calculates basic closure of labour participation rate between man and women and its impact on the output. Data for 2022 show that simple closing gender gap in labour participation would provide 20.47% increase of output.

CONCLUSION

Estimates from multiple studies on closing gender inequality gaps show that there is significant positive impact on employment, productivity, diversification of economy, innovation, economic growth.

Potential gain in output from closing labour force participation is 15-21%, meaning that policies aimed at improving active female labor participation, entrepreneurship, skills and gender representation on senior positions should be part of the inclusive and sustainable growth policies of the country.

If the country wants to use the overall talent potential, policies should be gender sensitive, starting from gender responsive budgeting, to putting gender, or, so called “pink” lens when designing different policies to evaluate their impact on gender inequality or gender impact assessment. Sometimes, even though, economic policies may be gender blind, they may not be gender neutral in their impact. Tax policy as an example: progressive taxation may be gender blind, but it is more favorable for women, whilst lower taxation on capital income, wealth and inheritance is typically favorable for man. Therefore, formulating tax policy should be an important tool for policy creators for closing gender inequality gap.

Closing gender inequality gap can lead to more productive, competitive, innovative, diversified economy, and thus to structural transformation towards service economy. This creates demand for better quality and higher payed jobs, which asks for adequate education and skills match. Even though government policies should be demand driven, investing in education and skills for jobs of future should be long term policy. Choosing the right education can lead to better job prospects in the future, will lower opportunity costs for women from choosing education which takes them to lower payed jobs, or lower return of investment in education. For example: career guidance for women to choose STEM or even better ICT tertiary education.

To support more women in entrepreneurial activities, access to finance through tailored made programmes, guarantee schemes, specially designed loan and grants schemes, more mentoring programmes for women needs to be promoted, as well as improving financial literacy. Active measures for employment should include specially designed programmes for women combined with proper vocational and soft skills trainings.

These policies should be backed with more supporting policies that promote work life balance (e.g., parental or shared leave, part time and flexible work hours- work from home), as well as investing and creating quality jobs in care economy and the service sector. Tackling informality including unpaid family work, promote sharing unpaid care and domestic work, equal pay for similar jobs etc. is an important policy which will ultimately lead to more economic participation of women.

And lastly, in order to fully utilize women’s potential and talent, country needs to support gender representation in the positions of power and decision making: politics, business, professional associations, financial and banking sector. In this context, formal requirement for introducing gender disaggregated data, implementing quotas in government and corporate boards and similar might be some of the policy actions. More equal representation will lead to policy decisions with gender perspective, which will ultimately lead to more inclusive economic growth, benefiting both man and women, which is nothing less, but “smart” economics.

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