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journal homepage: www.elsevier.com/locate/jeboSocially gainful gender quotas[☆]Oded Stark^{a,*}, Walter Hyll^b^a Universities of Bonn, Klagenfurt, Vienna, and Warsaw^b Halle Institute for Economic Research

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ABSTRACT

We study the impact of gender quotas on the acquisition of human capital. We assume that individuals' formation of human capital is influenced by the prospect of landing high-pay top positions, and that these positions are regulated by gender-specific quotas. In the absence of quotas, women consider their chances of getting top positions to be lower than men's. The lure of top positions induces even men of relatively low ability to engage in human capital formation, whereas women of relatively high ability do not expect to get top positions and do not therefore engage in human capital formation. Gender quotas discourage men who are less efficient in forming human capital, and encourage women who are more efficient in forming human capital. We provide a condition under which the net result of the institution of gender quotas is an increase in human capital in the economy as a whole.

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1. Motivation

We present an economic rationale for instituting quotas that mandate the promotion and appointment to top positions of female workers rather than of male workers. We evaluate the impact of gender quotas on the formation of human capital in the economy at large. We contribute to the affirmative action literature and to the ongoing debate regarding the introduction of quotas for women.

In many developed countries, the labor-force participation rate of women is about 10 to 15 percentage points lower than that of men. The representation of women on corporate boards averages about 10 percent in Europe, and about 16 percent in the United States.¹ In 2013, among the CEOs of the Fortune 500 companies, only 4.2 percent were women, among the CEOs of the Fortune 1000 companies, only 4.6 percent. No wonder that company boards are pressured to appoint female directors. In 2011, the European Commission warned European firms not to neglect to promote women. Many countries

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¹ According to the World Bank (<http://data.worldbank.org/indicator/SL.TLF.TOTL.FE.ZS?display=default>), the female labor force as a percentage of the total labor force in 2011 was 44.4 in China; about 46 in the United States, the United Kingdom, and Germany; and about 47 in Norway, Sweden, and France.

have already instituted female quotas for their highest “boards,” namely parliaments, as well as for boardrooms. In 2003, Norway passed and enacted legislation mandating female quotas for the boards of directors of public companies. The goal of 40 percent representation of women was reached in 2009. Spain implemented female quotas in 2007, and in 2011 quota laws were passed in Italy, Belgium, the Netherlands, and France. Finland and Sweden successfully increased the number of women on boards by non-legislative means. Several other European countries are fiercely debating the issue.

Economic performance does not seem to be adversely affected when quotas are implemented. Several studies conclude that firms managed by both men and women are more successful, more efficient, and generate higher profits than firms managed only by men. [Carter et al. \(2003\)](#) find a positive relationship between corporate performance and the proportion of women or minorities on the board of the 1997 Fortune 1000 companies. Similar results are found for companies all over the world ([Desvaux et al., 2008](#)); for the Fortune 500 companies in 1996 - 2000 ([Catalyst, 2004](#)); for Danish companies ([Smith et al., 2006](#)); and for Dutch and, again, for Danish companies ([Marinova et al., 2010](#)). [Matsa and Miller \(2013\)](#) study the effect of the Norwegian quota on corporate decision making. They find that gender quotas do not lead to less profitable business decisions at large, but entail a decrease in employee layoffs, which in the short run causes an increase in relative labor costs.

Suppose that women (men) consider their chances of professional advancement to depend on the presence of female (male) workers in higher positions. Several studies align with this perspective. [Gilbert \(1985\)](#) refers to the importance of same-gender role models in male and female students' professional development. [High-Pippert and Comer \(1998\)](#) study the consequences of female political empowerment. They find that women who are represented by women in the House of Representatives in the US are more interested in politics than women who are represented by men. [Niederle et al. \(2013\)](#) conduct a laboratory experiment aimed at gauging the effect of instituting a gender quota. The introduction of affirmative action results in a better representation of high-performing women in tournament-type competitions, which is partly attributed to women's belief in their ability to perform well, and partly to their dislike of competing with men. Drawing on data pertaining to managers in California's savings and loan industry, [Cohen et al. \(1998\)](#) investigate whether the gender composition of an organization affects men's and women's job mobility. They find that women are more likely to end up being promoted or hired into a management position when the share of women in that position and above is higher. [Cohen et al. \(1998\)](#) infer that the presence of women in managerial positions is crucial for getting more women into management, a demonstration effect of sorts.

Could it be that quotas encourage women to acquire tools and skills that help their rise to top positions? Do quotas affect human capital formation? Revisiting Norway, in 2000 43.5 percent of women aged between 25 and 34 attained tertiary education. This share increased to 44.8 percent in 2003, and to 53.7 percent in 2012.² During that period, the percentage of women on boards of public limited companies nearly doubled every two years - from six percent in 2002 to 40 percent in 2009 ([Storvik and Teigen, 2010](#)). Associations are not causality, but a link is plausible.

Why should policy makers and social planners care about human capital at all? Both theory and evidence suggest that human capital accumulation is an important engine of economic growth and development ([Lucas, 1988](#); [Mankiw et al., 1992](#); [Barro, 2001](#)). [Castelló and Doménech \(2002\)](#) highlight the negative relationship between human capital inequality and GDP growth. Furthermore, inequalities in human capital translate into inequalities in earnings (see, for example, [De Gregorio and Lee, 2002](#)). The negative relationship between income inequality and economic performance has been widely researched in the growth literature as long as two decades ago ([Alesina and Rodrik, 1994](#); [Persson and Tabellini, 1994](#)).

In section 2 we study the altered human capital formation environment when gender quotas are set so as to increase the presence of women in top positions. We provide a condition under which the institution of gender quotas results in an increase in the economy-wide human capital. Section 3 concludes.

2. Analysis

Suppose that individuals' acquisition of human capital is influenced by their ability and by a gender-specific prospect of getting a top position: individuals consider their chances of obtaining a top position to be influenced by their human capital, and by their gender. In a setting without quotas, men hold a higher share of top positions than women. Given a similar ability distribution among men and women, even men of relatively low ability have reason to engage in human capital formation because they have a reasonable prospect of getting a top position. In contrast, even women of relatively high ability do not engage in human capital formation because of their slim prospect of achieving the same. In a setting with quotas, men who are less efficient in forming human capital realize that they are not as likely to get a top position; the expected reward to human capital for them declines and men therefore invest less in human capital. Conversely, in such a setting women who are more efficient in forming human capital will expect to get a top position, and therefore will form a higher level of human capital. Then, because of relative advantage in ability, the human capital formed by women who are encouraged to acquire it by quotas will be greater than that of men who are discouraged by quotas. In sum, the economy-wide human capital per worker goes up.

Specifically, consider the following framework. Let the distributions of the ability to form human capital of both men and women be non-uniform, and not too dissimilar. For example, these distributions can follow a bell-shaped curve, and be akin

² See Eurostat education and training data (edtr/edat/edatm/edatm1/edat.lfse.07), retrieved on July 2, 2013, from <http://epp.eurostat.ec.europa.eu/portal/page/portal/education/data/database>.

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