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“Leadership and Management: Managing Change, Culture and Diversity in a volatile environment”

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Good afternoon ladies and gentlemen,

I want to begin by thanking Central Banking and the Eastern Caribbean Central Bank for this opportunity to share views on the challenge all of us confront managing change, culture and diversity in our institutions. I would have loved to be there in person, but my busy schedule didn't allow it; still, I am sincerely grateful that I can be present virtually at this valuable Conference.

Introduction

On this occasion, I would like to focus on the important opportunity for central banks to demonstrate their leadership and management capabilities in one particular area: gender equality. Closing the gender gap is imperative. As the OECD in its publication of this year *Joining Forces for Gender Equality* says: “Addressing gender inequalities is not only a matter of intrinsic value and a moral imperative. It can also enhance growth, productivity, competitiveness and the sustainability of economies.”

Let me begin by examining the economic relevance of closing gender gaps, I will report some of my country's labor and financial market findings based on microdata, and I will end by sharing with you some recent initiatives of the Central Bank of Chile.

The gender gap: economic relevance and challenges

Why is the role of women in the economy so important? Let me illustrate it with some proven facts. Women make up more than 50% of the world's population. But this proportion is far from the reality of labor markets and top positions around the world! Thus, it is very clear that we are wasting human capital and talent in our economies due to the lack of women in these fields.

The literature identifies at least three important arguments about the women relevance in the economy. The first is the contribution of labor participation to trend growth. The production of goods and services depends directly on the number of active workers in the economy. The growth of female labor participation has contributed substantially to GDP growth, which still has room to continue due to the gap in women's participation rate. In this sense, authors such as Petrongolo and Ronchi (2020), in their publication “Gender gaps and the structure of local labor markets” show that

increases in female labor participation have been caused by greater access of women to education and better anti-discrimination laws. Other aspects related with this are better design of public policies, cultural changes in gender roles in the direction of greater perception of equality in labor capacities, and earlier access to contraception, which reduces the exit of women from the labor market at an early age.

However, this approach falls short in one key respect. A large portion of women who are not in the labor force are performing unpaid domestic work, an aspect that influences the well-being of individuals, their families and society, but which is not included in traditional national accounts measurements.

A second aspect has to do with the optimal allocation of labor resources in companies. According to Santos Silva and Klasens, 2021, in “Gender inequality as a barrier to economic growth: a review of the theoretical literature,” gender inequality, understood as limitations for women in terms of access to education and job opportunities, can generate a misallocation of talent in companies. This misallocation implies that the most suitable person is not chosen to fill a vacancy, resulting in lower productivity of companies and lower production. For example, Hsieh, Hurst, Jones and Klenow, in “The allocation of talent and US economic growth” (2019), estimate for the United States that reductions in gender barriers to human capital accumulation, changes in social norms toward less discrimination in the labor market and decreases in the wage gap would explain 40% of the growth in GDP per capita between 1960 and 2010. Thus, working on equality in education, opportunities and elimination of disparities promotes the optimal allocation of workers and higher per capita income.

A third aspect to highlight is innovation. In the long term, as countries become more developed, technological change is the main driver of economic growth. Innovation plays a fundamental role in productivity growth. Discrimination and misallocation of talent reduce innovation and the rate of technological adoption by companies. Cuberes and Teignier, in “Macroeconomic costs of gender gaps in a model with entrepreneurship and household production” (2018), note that constraints for women to participate in the market as entrepreneurs reduce aggregate productivity and, therefore, lower per capita income. In this way, potentially productive entrepreneurs and, therefore, with high growth capacity, are left out of the market.

It is well known that a series of institutional and cultural factors, as well as policy efforts, have led to increasing female labor participation, especially since the 1950s. However, male labor force participation continues to outweigh that of women. And the Covid-19 pandemic worsened this situation. In Chile, my country, female labor market participation is almost 20 basis points lower than male participation and remains below its pre-pandemic levels.

What is behind this? The literature suggests that labor interruptions, gender-differentiated labor participation and employment rates, along with their potential impact on income, may explain part of the gender gaps. For example, according to Buk, a consulting group specialized in human resources, based on surveys of more than 1,600 people in four Latin American countries, finds that 49% of women have interrupted their working careers for more than six months, compared to 26%

of men. The main reasons for women's interruption are childbirth (58%), studies or training (18%) or taking care of relatives (14%); while for men, the main reasons are education or training (38%), leisure (23%) or taking caring of their own health (11%).

At this point, we cannot fail to mention Dr. Claudia Goldin, recently winner of the 2023 Sveriges Riskbank Prize in Economic Sciences in Memory of Alfred Nobel. She is the third woman to win a Nobel Prize, but the first to receive the award alone. Claudia has been a source of inspiration for many women in economics, demonstrating the possibilities of success in a world dominated mostly by men. In her work, she has documented the progress of women in the U.S. labor market through more than 200 years of history and delved into the causes of the gender wage gap. For example, she described the 1970s as a "revolutionary" period of marked progress in female labor participation, due to the widespread use of birth control pills. She has also shown that most of the difference in earnings between men and women for the same job takes place in the present and becomes active after the birth of a woman's first child. Her work not only uncovered key drivers of gender differences in the labor market, but she also derived clear policy implications towards optimally closing the gender wage gap.

Unfortunately, female participation in the labor market is not the only gender gap that needs to be closed. The OECD publishes the Social Institutions and Gender Index (SIGI), which measures gender discrimination across 179 countries. According to SIGI 2023, 56% of the world's population still believes that while a mother is in paid work, her children suffer. Women are often expected to undertake most of the unpaid care and domestic work, limiting time for education, training, or paid employment. Women spend more than 2.5 times on unpaid care and domestic work than men, which is even higher in developing countries according to empirical studies.

Additionally, several important gaps emerge when looking to the future. For example, according to the OECD Going Digital Toolkit, 2021, except for Brazil, in all OECD countries women aged 16-to-24, are acquiring fewer digital skills than young men of the same age, specifically in learning to code. Another example is the presence in management positions globally, where according to SIGI 2023 women represent just 25% of the total. This underrepresentation in leadership and management contrasts with the overrepresentation of women in low-wage sectors, informal economy and part-time work.

At the Central Bank of Chile, thanks to various agreements with the public and private sectors, we have a broad microdata base, with administrative information on companies, workers and credit, among others. The richness of this granular data has allowed us to understand more deeply some economic phenomena, and this includes gender gaps in both the labor and credit markets.

Based on data from the universe of formal workers in Chile, the wage gap has been narrowing since 2014, although with a partial reversal after the pandemic. When analyzing women's wages relative to men's by economic sector, in nine out of eleven the average wage of women between 2012 and 2023 is lower than that of men. The largest gaps are in the trade sector, business services and financial activities. It is worth noting that in almost all of these sectors there are considerably fewer women than men working, with an average of 37% of the total number of workers.

When we do this analysis by company size, we find that on average between 2012 and 2023 the wage gap is more evident in medium-sized companies, with 14%, and especially in large ones, with almost 23%. In micro and small firms, average wages are similar between men and women.

However, the richness of the micro data allows us to consider possible differences between men and women in aspects such as age and level of education. When estimating the wage gap for the period 2012-2023 controlling for age, education, economic sector and year fixed effects, the wage gap persists, and it is about 18%. That is, on average women earn 18% less than men, and this gap cannot be explained by the aforementioned individual characteristics. This result is similar to the gender wage gap in the United States, which was 22% in 2022, and lies within the range of the wage gap in high-income countries, which is between 10% and 20%.

The labor economics literature has identified job transitions as an important driver of wage growth. Specifically, the more likely a worker is to move from one job to another, the more likely he or she is to obtain a wage increase. In contrast, transitions from employment to non-employment, or from non-employment to employment, tend not to be significantly correlated with wage growth. According to our estimates for Chile, the probability of a woman making a job-to-job transition is two-thirds that of a man, evidencing a channel that could contribute to the wage gap. In contrast, the probabilities of making transitions from employment to non-employment and from non-employment to employment are similar between men and women. These findings open up new questions about the origins of the gender wage gap and invite us to consider different hypotheses that we would like to explore in future research.

The gaps between women and men are not limited only to the labor market. Another possible relevant gap refers to the credit conditions that men and women face when requesting bank financing, particularly with respect to interest rates and loan amounts. Administrative credit data show that, between 2012 and 2023, women took out loans with interest rates on average 0.98 percentage points more expensive than loans taken out by men. Since the pandemic, this gap has closed, and it would be interesting to delve deeper into what lies behind this. However, in normal times this gap exists and implies that for women borrowing is costlier than for men.

To what extent do these gaps in the financial market reflect gender wage gap? To answer this question, we estimate the gap in loan interest rates between women and men controlling for wage, age, education, industry, and a year fixed effect. The main result of this exercise is that, controlling for these characteristics, the gender gap in interest rates disappears. In other words, the gender gap in the cost of credit appears to be related mostly to the wage gap among other elements mentioned. This is so because the characteristics of individuals such as age, education and the sector in which they work have a direct impact on their wages. This would indicate that reductions in the wage gap would have positive effects on the credit market, reducing financial costs for women, which could stimulate consumption and investment. This analysis is also robust to different types of credit, and not only to total average loans.

Our studies also show a gender gap in the amount of credit granted. However, in this case, the equations that control for wages, age, education, industry and type of credit fail to fully explain this gap. On this point, according to information from the Household Financial Survey, women heads of household restrict themselves more than men when applying for a loan, because they believe that they will not be granted it. This belief seems to be validated by evidence that women are discriminated against when taking out commercial loans in Chile. Likewise, these results also support the hypothesis that women are more risk averse than men. Future work may shed light on the role of these potential explanations for the difference in loan amounts granted to men and women.

To sum up, administrative data show that gender gaps in wages, labor participation and job-to-job transitions are considerable in Chile and heterogeneous across economic sectors. In addition, the gender gap extends to the credit market, where credit conditions in terms of interest rates and amounts are, on average, better for men. However, these gaps observed in the credit market seem to be explained in part by the wage gap and, perhaps, by a lower demand for credit by women relative to men. Given these results, efforts to close gender gaps in the labor market would have, in addition to the aforementioned direct effects on economic growth, indirect positive effects through the credit market. Although these results are quite subjective, they are still the fruit of a descriptive analysis, which we hope will be the beginning of the development of a research agenda on these issues.

Let me use what I have just said about gender gaps in the credit market to highlight something that is extremely significant. Did you notice that there may be some restriction on the part of women related to barriers that are not observable, such as beliefs that they will not be considered as credit subjects? This aspect is repeated over and over again in other markets and areas of the economy, and also in our workplaces. It is the **unconscious gender bias**.

Reducing gender bias and central bank actions

The unconscious gender bias refers to those beliefs we all have but are unaware of about men and women, based on the sociocultural stereotypes with which we have been brought up and which we have internalized through the socialization process.

These beliefs are reflected in some actions, that some people, especially the younger ones, call 'micro-sexism'. One example of these actions is the glass ceiling, that represents the limits women face in their professional careers, not because of a lack of preparation and capabilities, but because of the institutional structure itself. There is also the sticky floor, which refers to the difficulties women have in comparison to men in moving up the organizational ladder from the most precarious, temporary or poorly paid jobs. Global statistics show that women are the ones who occupy the informal economy or the sectors of activity with the worst conditions, hold the majority of short hours or temporary jobs, and have the lowest paid work roles.

There are also other examples, as the lack of female leadership references, feel guilty for being a working mother, mansplaining, discrimination in selection process, a “double-working-day” with the domestic work at home, selection bias in some jobs and careers, cultural bias, the wage gap, and more.

Taking this into account, as the Central Bank of Chile, diversity in culture is an objective, because it contributes strategically to face, with different perspectives, the technical and adaptive challenges we have as an Institution, in an environment of constant change and growing complexity. Diversity is one of the management hallmarks in our Strategic Plan for the period 2023-2027.

Already in 2018, we started working on Gender Equality, to increase parity in the High-level Management, and in 2019 we started working on the aspirational objectives of increasing the participation of women in the total staff and in the middle management team (Area Managers and Heads).

To achieve our goals, we defined a specific agenda with clear lines of action. In terms of pillar is Talent Attraction, for the younger ones, in our Internship Program, since 2020, women represent 50% of the interns who access the program. This is relevant, since high performance interns represented 11% of external hires, and of these 58% are women.

When we participate in job fairs, we focus on young professional women, who represent 70% of the interviews.

We also carry out proactive searches for women, especially in positions related to information technology, research, or areas with less than 30% of female applicants. In addition to this, we have started a program called "Pool of Talented Women", which is a group of pre-evaluated professional women, to be invited to selection processes according to their profiles.

Also, we disseminate job offers on platforms of interest to women, interviews are conducted by a panel with gender equality (men and women) and the final shortlist for management positions must include at least one woman with the necessary competencies to obtain the position.

All these lines of action have yielded results. For example, the percentage of women hired in economic areas at the end of 2019 was 23%, and by the end of 2022 it rose to 42%.

In addition, we have multiple activities during the year to maintain the relationship with the outside world, such as the program of activities to commemorate Women's Day and talks for students and young professionals with leading and outstanding professional women in Science, Economics, Financial Institutions, International Organizations, and the Bank.

Another issue of our gender agenda is the strengthening of internal networks and achieving a work-personal-family balance. In this regard, since 2020 we have had a Mentoring Program for high-potential and high-performance professionals, with at least 50% of women participating in this development program each year. Also, associated with mentoring, we initiated the Women's Community of Practice and Learning, with the aim of listening to and implementing practices in terms of flexibility, work-life balance, and managing obstacles. Lastly, we have revised our internal

People Policies, with the aim of focusing on balance and equity in aspects such as, for example, parity of salaries between men and women by level of position, associated with performance.

Other pillar of our agenda is the diversity actions contained in our Strategic Plan. As I mentioned, we have in place a strategic plan for the period 2023-2027 which, in this aspect, has a specific initiative: to have more women in the STEM areas, that is, Science, Technology, Engineering and Mathematics. In addition, we have created the Leadership School, an educational instance, to foster the strategic thinking of those who hold leadership positions in the Bank, promote accountability and address diversity and inclusion. Regarding the latter, we also discuss the unconscious biases that each of us may be expressing.

Thanks to the work based on this agenda, we have also identified the areas in which we still face important challenges. Among them are greater gender equity in the middle office by strengthening training and mentoring programs, increasing the participation of women in the total staff, which currently stands around one-third, incorporating a Gender Equity and Diversity training module for all staff, along with maintaining gender equity training for our leaders, and increasing the attraction of women in Information Technology and women PhD economists in research areas.

Carrying out these actions has not been an easy road to travel, cultural changes are not easy. However, as institutions with public functions, we must be at the forefront and push this change, always adding everyone within the organization. Inclusion means adding up. In our banks we all need each other. We have to open the doors to opportunities for everyone.

Conclusion

Even when we are working to reach diversity in our institutions, there are still substantial challenges ahead. There have been achievements in comparison with just a few years ago, of course, but it is very clear that we must pick up the pace, and manage the change, culture and diversity although the difficulties in our own environments.

As you have seen, I centered my presentation in gender gaps. Not only for my own experience or the work we are doing in the Central Bank of Chile in this field, but the economic value generated for closing this gap, since as a society we are wasting talent, with direct effects on the well-being of a significant part of the population.

Working on these and other challenges, such as unconscious cultural biases, not only contributes to a fairer society, but also a more prosperous one. In this regard, I would like to highlight the role of each Central Bank in addressing these challenges. In addition to the efforts of each institution in promoting gender equity internally, we also have a paramount role in society beyond setting an example.

How can we move forward on what each central bank can do on this issue? Speaking from my own experience, I would like to mention some relevant points. One of them is to raise awareness and to

make concrete and increasing efforts to eliminate “micro-sexism” or unconscious bias in our institutions.

Besides, in conferences and panels on research and economic policy, we can foster the participation of both women and men. This is not trivial. In economics, women represent a smaller proportion of economists, particularly in macroeconomics, and finance, and in Chile they are at least a third of the total. This is partly due to self-selection outside this discipline. Having all the excellent women who make up the profession participate in these events is evidence of a step forward in promoting gender equity and role models for the next generation of women economists.

In addition, to make the situation of women visible we can try to provide more information to those who design public policies and nurture the public debate. In this line, at the Central Bank of Chile to contribute to academics, policymakers and people in general with information about this topic we have dedicated space on our website in which we are gathering gender statistics produced in the country, we also have the capacity to contribute with research and analysis that delves deeper into these issues.

Thank you for your attention.