



# “THE OPTIMAL BUNDLE”

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## Special Report on Women and the Economy

**What is the state of the women in the economy?** In almost every economy, including developed ones, women are employed at a far lower rate than men and make less money proportionally. The U.S. is no exception from this global trend. As of 2012, only 17% of more than 5,000 board seats for S&P 500 companies consisted of women. Countries like India, Norway, Spain, and France have already implemented mandatory quotas for women in executive board seats. In this edition of the Optimal Bundle, we assess the state of women in the domestic and global economy. Additionally, we debate the desirability of quotas.

### Keep On Workin' In the Free World

Free market capitalism usually provides a long-term solution for market inefficiencies. That is not necessarily the case for women in the workforce. Women are at a disadvantage in the workplace. Women in the United States who work full time earn 23% less than their male counterparts. It is even less for minorities – African-American and Latina women earn 36% and 44% less than white males, respectively. Of the 500 companies that make up the S&P 500, only 24 have female CEOs. In the case of quotas on female executives, intervention seems necessary. There stands no tangible reason why these pay gaps or the huge disparity in executive placement exist. The only reason is our irrational and sometimes subconscious bias. If free markets cannot or will not correct this market failure, governments should. — KGM



*The Paycheck Fairness Act is proposed legislation that would modify procedures implemented since the Equal Pay Act of 1963.*

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*Three female Penn State Mont Alto graduates. The majority of U.S. college graduates are women, which means skilled workers are increasingly female.*

### On Not Following the Trend

Trends are not always something that should be followed. A recent one concerning women's labor force participation in the U.S. fits that description: The percent of women working has been falling since the beginning of the Great Recession, and this trend is alarming to many economists. Women's labor force participation is strongly correlated with overall economic and wage growth. This is no accident, as women's increased labor force participation is marked with greater encouragement of women attending college, pursuing more higher-earning jobs, and benefiting from more accommodative social policies that make it easier for women to work. All of these adjustments over the past several decades have paved the way for women to work more and the economy to work better as a result. Declining women's labor force participation is avoidable in the long run. More aggressive private and public actions would help it go out of style. — CL

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### The Billion Woman Army

It seems irrational to underutilize half of the world's working-age population. Yet, the global economy has done precisely that by employing women at a far lower rate than men in most countries. The Harvard Business Review Staff found in 2013 that the GDP of the United States, Japan, and Egypt would be higher by 5%, 9%, and 34% respectively if women were employed at the same rates as men. Egalitarianism could eventually become reality, as Booz & Co. researchers estimate that more than one billion women could enter the global economy in the next decade. "There is a view that countries that are able to tap into that talent pool are going to see higher growth," Booz business strategist Penney Frohling said. "There is a very clear correlation between empowering women and GDP growth, literacy rates, infant mortality rates." Australia ranked highest of 100 countries in Booz's Equality Matrix in both Economic Success and Support for Women, so it should reap the rewards of higher economic growth. Clearly, gender equality pays off. — JK



*Australian social and community workers lobbied for legislation that granted them equal pay from the Australian government.*

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# Are quotas for women in company boards desirable?

## Pro: Cracking Glass Ceilings with Quotas

Even given historical progress on gender equality, there is still one gaping hole: women in company boards. Thanks to several European countries, consider the glass ceiling cracked. Norway, Spain, France, Iceland, and Germany have all imposed quotas for women in boardrooms. Apart from promoting gender equality, quotas for women in company boards act as a necessary foot in a door that has been locked for hundreds of years. Sir Richard Branson, founder of the Virgin Group, wrote, "Norway took the lead in 2003 when its legislature passed a law requiring that at publicly listed companies, at least 40% of board members should be women. ...since then the proportion of women on boards at Norwegian companies has risen to an encouraging 44%."

While this European country took a step towards equality, the United States remains unresponsive. After adding a woman or two to their board, most American companies stop. This behavior is not only evident in the boardroom, as the inequality stems from the overall college graduate population. The National Center for Education Statistics reports that women earn 57.4%, 62.6%, and 53.3% of bachelor's, master's, and doctor's degrees, respectively. The gap is evident--women have higher levels of degrees than men, yet only 19.2% of board members in U.S. stock index companies are women. The argument that there are not enough qualified women in the United States to fill positions falls flat.

There is also compelling evidence that having more women in company boards is profitable in more than one way. Amanda van Dyke, chair of Women in Mining in the UK, analyzed the performance of companies with female representation on their boards and found that they excelled. Van Dyke explained, "Women in leadership positions have been correlated to better profitability overall, better return on capital, lower risk and better environmental social and governance management... Actually the earnings per share were 13 times higher for [mining] companies that included women."

Instead of seeing these quotas as a crutch for women, there needs to be a change in sexist mentalities. Corporate culture is holding back women, and the gender quota is the tool needed to finally break through the glass ceilings of high-level gender discrimination in the workforce. -CM

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*Interested in writing a guest blog post for the Penn State Economics Association? Email [jxk5441@psu.edu](mailto:jxk5441@psu.edu) with a draft between 330 and 375 words. Note: not all submissions might be published.*

*Interested in attending a PSUEA general body meeting to learn more about the economy and experience great networking opportunities? Come to 73 Willard at 8 p.m. on Tuesday.*

## Con: Quotas: Bad for Everyone Concerned

There is plenty of good that comes out of having women on an executive board. It should be encouraged, and not just for equality reasons. The Bloomberg View cites studies which increasingly show that companies with at least one female board member generate higher revenues, greater innovation, and fewer scandals. Regardless, it should be entirely a company's choice whether it should have female representation or not. Quotas only take away that choice.

When companies are forced to add female executives, they find ways around it like adding additional male executives to compensate. Ironically, companies forced into quotas end up performing worse than otherwise. Norway is an example of this, as companies showed more failures in acquisitions, higher borrowing levels, and steeper losses in market value compared with other companies that don't impose a quota. Poor choices are made, and deciding that a woman should be on a board because of her gender over a man who is more qualified and more experienced can only hurt the company's performance. I don't know about you, but if 12 board members who are the most qualified happen to be one gender, I'll accept it.

Quotas might be able to get women on an executive board, but they do not keep them there. Research by BNY Mellon showed that it is through female economic power--years of schooling and percentage of women in the work force--that women truly succeed and earn their place in those executive positions. Quotas prove nothing of the sort. They fail to empower women as a whole as they are supposed to, especially since the policy only concerns the women at the top. In places like India, wives and daughters of these executives get appointed, another form of discrimination within quota guidelines. The better solution is to give all women the tools and encouragement needed to succeed on their own. A cultural shift, in which interior change happens based on performance rather than requirements, is necessary for progress.

Once companies recognize that hiring female executives by choice helps their business, then the change will come naturally. Be patient. Give it time. Eventually, implementing a quota will universally be seen for what it is: superfluous. -RG

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