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Reducing the discrimination-based pay gap by 50% is associated with a potential 8% increase in Colombia's GDP in the long run. These results depend on the substitutability between men and women in the labor market and can be smaller if closing the pay gap implies a policy effort that must be financed with taxes.

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Approach

The document uses a general equilibrium model calibrated for Colombia to analyze the economic consequences of reducing the gender pay gap attributable to discrimination. The approach integrates a representative household where men and women make joint decisions regarding the allocation of their time among paid work, household tasks, and leisure, within a general equilibrium framework that includes firms, international trade, and capital accumulation.

Contribution

To quantify the macroeconomic effects of reducing this gap in a developing economy, identifying the key channels through which these effects are transmitted. The model highlights how the magnitude of the gains depends on structural characteristics, such as the degree of substitutability between male and female labor in the productive and domestic sectors and analyzes the macroeconomic impact of financing gap-reduction policies through fiscal instruments.

Results

The results indicate that a 50% reduction in the gender pay gap due to discrimination could increase Colombia's Gross Domestic Product (GDP) by approximately 8% in the long run. This increase would be driven by higher female labor force participation, an increase in wages, and greater capital accumulation. The adjustment implies a reallocation of time within households, with women dedicating more hours to market work and men assuming a greater proportion of domestic production. When the gap reduction is financed with taxes, the macroeconomic benefits are smaller, revealing a trade-off between equity objectives and economic efficiency.