

ESG Now Podcast

“An Homage to Claudia Goldin (Gender Pay Gap)”

Transcript, 17 October, 2023

Michael Disabat...: What's up everyone, and welcome to the weekly edition of ESG Now, where we cover how the environment, our society, and corporate governance effects and are affected by our economy. I'm your host, Michael Disabato, and this week we pay homage to Claudia Goldin, who won the Nobel Prize in Economics for studying women in the workforce. Thanks as always for joining us. Stay tuned.

It is likely that I, a man, am making more money than a colleague of mine that is a woman, maybe not where I work now, of course, but previously in other roles. And the reason I know this is not because I'm more skilled in any kind of way or manner. It's because of Claudia Goldin, a Harvard professor who just won the Nobel Memorial Prize in Economic Sciences for her role in advancing the world's understanding of women's progress in the workforce.

And part of Dr. Goldin's research focuses on the dynamics of the gender pay gap for professionals in the U.S. showing why, for example, there's a large and rising gender gap in earnings that emerges within a few years of MBA completion for young professionals in the financial and corporate sectors. Her work is fascinating in its own right, but she made history because she is the first woman to have been honored with the Economics Nobel solo rather than sharing the prize with someone else.

And we wanted to honor her research this week by discussing some of the gender pay gap research we have done, which has, in part, been informed by academics like Dr. Goldin. And then to give credit to the importance of the work that she has done, I wanted to share some stories by some of my colleagues and how they navigated the complexities of returning to the careers that they had after having their first child or after having a family.

But before we get into that, we have to go elsewhere. We have to go to Japan because the Japanese government recently passed a new regulation called The Act on Promotion of Women's Participation and Advancement in the Workplace. And it requires employers with more than 300 employees to disclose their gender pay gap data, and it's mandatory.

And to talk about this act, I called up my colleague, Yukie Shibano, who is actually based in Japan. But the reason I wanted to talk to her was not because of her location, but was rather because she just finished doing research on this act and what it means that all these companies have now disclosed their gender pay data. So I called Yukie and I asked her to first take me through what this act is all about.

Yukie Shibano: Basically, they had to show how much more men were making than women. And the Japanese government said, "You have to do this in a legal document called the Securities Filing as of March 2023."

Michael Disabat...: Yeah, it's not like something that companies can avoid or decide not to disclose on, which often happens in regions where such disclosures are voluntary. A little history here, I want to give you some history on the act itself.

The act on promotion was actually originally adopted in 2016 as part of the Abenomics Growth Strategy initiated by former Prime Minister, Shinzo Abe. And his goal was to stimulate economic growth by empowering women to take more active roles in the workplace since they were historically underutilized as a source of labor and talent in Japan. And it was actually coined as Womenomics by Kathy Matsui, who was a Goldman Sachs' Chief Japan Economist for a long time. And it has such a nice name there, Womenomics, and it's very succinct that I wanted to share it with all of you.

And at first, the act required companies to disclose a few diversity metrics from a set of metrics that the government pre-specified. And that was fine, but it didn't really go far enough. So Japan's new Prime Minister, Fumio Kishida, decided to make the disclosures mandatory as part of his new capitalism plan. And in doing so, he said, "We must strengthen the foundations for contribution by women across the board, such as through promoting economic autonomy by correcting the wage gap between men and women in order to secure diversity for the economy and society of Japan and thereby lead to further innovation."

Okay, this was enacted in 2022. It's been a couple of months. How are we doing? How has it progressed? I asked Yukie, who just as I said, finished conducting research on that very same question for a report that she's in the middle of writing. So she had a lot to say.

Yukie Shibano: We looked at a representative group of 700 companies in Japan, and about 550 companies so far disclosed the gender pay gap data. We found that the average gender pay gap ratio for employees, including both full time and permanent, was about 66%, which means that for every dollar a man earns, a woman earns 66 cents on average. If we look at the data by sector, financial sector has the largest gap with about 56%, and telecommunication services sector has the narrowest gap at about 74%.

Michael Disabat...: Yeesh. So equality is inching forward, but it's still pretty stagnant. So let's compare that to the U.S. And there isn't a one-to-one comparison in the US that we can make because the disclosures just aren't there. So we need to look at labor averages, which is misleading, but I want to give a benchmark for you to reference.

For all workers in the U.S., salaried and wage-based workers, on the median women make a little over 80 cents for every dollar a man makes according to the U.S. Bureau of Labor Statistics. Now that is for everyone and it's likely skewed, but regardless, it's not a 100%. It's not one-to-one, which is the goal of an equal society. Now finding out why that gap persists is part of why Dr. Goldin got the Nobel Prize. Let's focus on the MBA studies she did where she examined gender differences in the career dynamics of MBAs who graduated from a top U.S. business school called the Booth Business School at the University of Chicago.

She found that "Immediately following MBA completion, male and female MBAs from this elite program have nearly identical labor incomes and weekly hours worked, but the gender gap in annual earnings expands considerably as their careers progress." She found that the reason for this was due to three factors, a bit more training for men pre-MBA, and a lot more training for men post-MBA, gender differences in career interruptions of six months or more, and a growing difference in weekly hours worked after earning an MBA.

And the key role here for those three factors is the presence of a new child in people's lives. And what is important here and what Dr. Goldin demonstrated was that it's a myth that women earn less because they have different jobs than men, rather, she found that the pay gap differences were within the same occupations, not between different jobs. And it was widening within the highest paying ones like business, law, and medicine, the sort of industries that prize and flexible hours to get ahead.

So now, going back to Japan, what is interesting, and also, to be honest, likely encouraging, is that Yukie found for those companies with a smaller pay gap, for those companies that women make closer to the same as men do, they were relatively stronger, these companies, in attracting, retaining, and training their entire workforce compared to their peers. Of course, we can't prove causality there, just correlation, but the finding does point to the possibility of wider impacts and just monetary gain for this effort in Japan of decreasing the gender pay gap. They can help everyone. Everyone's helped by a company that can attract, retain, and train you better than ever before.

Yukie Shibano: So if the disclosure of gender pay gap leads to narrowing the pay gap in the future, as the Japanese government aimed for, this may have positive impact on corporate culture to embrace diversity and raise the level of human capital management of Japanese companies. We are definitely going to watch the industrials and financial sectors. Industrials accounted for the largest portion of employees in the universe of Japanese companies we looked at, and financials has the largest pay gap across sector, so there is much room to improve.

Michael Disabat...: That pay gap disparity for financials seems to echo the findings of Dr. Goldin's, and it may be because, as Dr. Goldin found, that the financial industry rewards longer hours compared to other industries, which is likely similar in Japan. A fact long popularized by the salary men trope in Japanese popular culture or the word "karoshi", which means death from overwork.

So because of this regulation, we are now able to see in Japan with much more clarity how the gender pay gap changes throughout the years. And we are going to be able to see progress in those numbers and be able to look at them over time. And it will be a way for us to see how promotions play out and we might be able to infer changes in roles within companies using salary as a proxy. But besides all that, the question Yukie has is, what will happen next once all this data is out there in the open?

Yukie Shibano: The important thing is that whether companies are really going to diagnose the cause behind the data and improve it or not, rather than merely focusing on the numbers.

Michael Disabat...: I think that's fair and true, even with numbers, in Claudia Goldin's words, "If the tournament of nature of corporate and financial firm hierarchies and the upper out nature of major law firms and academic institutions doesn't change in some way, then the data shows people will continue to be penalized if they have a child or if they have some other interruption in their career." Where change is seen is often at the cultural level, where women feel comfortable with taking time off from their work because they're secure in their employment when they return. And they work in a field that respects the work-life balance needs of a family.

And reality echoed again in Claudia Goldin's work, which found that when there is a large share or a critical mass of women in the town pool, things are much more equitable. And it might be those companies that have quality labor management practices that you can mention, that can help usher in that sort of cultural change even if they cannot reach a critical mass of women on their staff. Or maybe it's going to be Gen Z, maybe they'll do it. They seem to really understand work-life balance. I do not know.

What I do know is understanding what that is like on the individual level, understanding what it's like to lose your career when you really want it, that's important for the story. We sort of went right into median numbers and sector averages, and what I want to do now is move into the anecdotal to help bring a personal light to the question of gender pay gap and gender disparity in the workforce.

So I want to bring you some stories from women colleagues that are based in New York with me about their experiences preparing for a child and having a child and what it was like for their careers once that happened. And I want to start with Laura Nishikawa, who was our Global Head of ESG Research. And

so here she is, lending the personal story of raising her 14-month-old in order to give some detail on the issue of broader labor dynamics and the gender pay gap.

Laura Nishikawa: I think what's a little bit unique for me, or unique in my situation, is that I was relatively older and more advanced in my career when I had my first kid. So I had plenty of time to establish myself in the organization, in the industry, in my role with my team, and that I think caused less anxiety for me than someone maybe earlier in their career and anticipating the work interruption.

I think what was really clear to me after I had my first is just where my priorities did lie, which is family first, work second. And I wasn't expecting that to be as clear as it was, and to not feel that intense competition, but it did mean that the career part does just naturally, at this age at least, take a bit of a backseat for me.

I think what I did not expect or had not fully thought through is how much of my career, in terms of where I got to and how I created my own brand and my own contribution, was hinging on me: working crazy hours, working 150% all the time, and being accessible all the time. And really, when that went away, all those extra times, those hours of between daycare pickup and bedtime or between breakfast and daycare drop off or those days where he's sick, that is really where I put in that extra to get ahead faster than I would've had I not had that time. And I think I underestimated how valuable that time and that extra effort was to me in terms of where it got me. And so I think if I hadn't had that earlier on in my career, I don't know if I would've been able to progress to the level that I did, as a kind of child-free person.

In terms of things that made it easier for me, the biggest thing for me that has made it easier is not being alone. So having a few of my peers at a similar level, experiencing the same thing at the same time. I have a really strong memory of presenting to the board a few weeks after I got back from maternity leave with one of my colleagues, who also had a less than one year old, presenting to the board on the same meeting. And I think it would've felt much lonelier in that experience if I didn't have peers who are going through it. And I think it's relatively new even for our firm to have a cohort of women with young children at this level. If you'd asked me five years ago, I don't think there were any MDs with young children at that level. So that's been different.

One thing that's been challenging for me is the lack of consistency between how we deal with female and male parental leaves. And this is something that I've been thinking about a lot, but really came to be very personal for me when women take these very long breaks and men do not, either because they're not entitled to them in the benefits or because it's just not culturally acceptable for them in the United States. I was not really ready for how much that impacted the dynamic between me and my spouse in terms of how we treated those first 12 months of life. How him having a few weeks and me having several months really changed the balance of how we approached that whole first year. I think I underestimated that too.

Michael Disabat...: Next is Gillian Mollod who has two teens and works on our physical-risk team. Her story is shorter, but it echoes Laura's thoughts on parental leave.

Gillian Mollod: Yeah, so the challenges I would say was that when I had my first child, she's 14 now, my husband only got one week off from work and then he had to go back to work. Being home with my daughter, when she was really young, was a bit trying. It was my first kid and I had to learn all the ropes on my own.

Those first several months really sort of cemented my parenting roles as a mom, and I think that those were hard to change. And I think, during COVID, these definitely changed a little bit because it was more all hands on deck. But these first several months really cemented my role as a mom. And my

husband and I have a very even relationship in terms of parenting, but I definitely have certain roles that I took on early on that I'm still doing today even though my kids are older.

Michael Disabat...: Second to last is Siyu Liu, a colleague of mine on the ESG Ratings team who spoke about the importance of culture for her transition into motherhood.

Siyu Liu: I had my daughter more than a year ago. As someone who is sort of still in the early- to mid-stage of their careers, I wouldn't say I went through the experience without any anxiety or any worry. But going through it and then coming back, I can resonate with the fact that being the environment that I have with the support from team, from workplace, from colleagues who had that experience, really, was very, very helpful. It took the anxiety off me. I didn't have to feel very insecure about my job or have to worry about the career trajectory. I know that it is time off work. It is a trade-off, as we all know, gender gap anecdotally exist.

But also thinking back, coming back to work, the experience for me, it didn't feel like a cost to me because people talk about it as opportunity cost, but it didn't feel like a cost to me because of the support that I had and because of just I didn't need to feel the pressure or the insecurity or the anxiety coming back to work, feeling that I'm behind or something. So that part I really appreciated, just the workplace environment that I have. So I guess culture is important in that sense. It helps women feel that security coming back to work and get back to their feet to pursue their career.

Michael Disabat...: And last but not least is Linda-Eling Lee, who used to be our Global Head of Research until she transitioned to being the Head of the MSCI Sustainability Institute.

Linda-Eling Lee: I have had three children, and I think the experiences have been quite different with the three of them. With the first two, I was doing my graduate studies, I was completing my PhD, so that was a very different kind of experience.

I had my third child about two months after MSCI had closed on the acquisition of Riskmetrics Group, which is when I joined MSCI. And so, at the time, we had a completely new corporate policy. I had a new boss with whom I didn't have much of a track record. So when I went on maternity leave, I took my 12 or 13 weeks, that was the maximum at the time. And I remember that even though I was obviously much more organized as a third time mom rather than first time mom and I wasn't the complete mess that all first time moms would be, I did feel like I had just low-grade anxiety the entire time I was on maternity leave because there were so many moving parts at work.

When I came back from work, I was actually immediately given new responsibilities and new leadership role. And I have to say, I think in retrospect, I really respect the fact that my manager gave me a lot of opportunities even knowing that I've just come back from maternity leave. The only thing I remember, actually, the first six months of returning, is just how much my life revolved around organizing around my nursing or pumping schedule. And so I know that some part of my brain is always worried about that component and that's something that I'm very empathetic to when we have new parents or new mothers returning to work.

I think that one of the maybe defining moments of my career, in some ways, was that maybe about eight weeks or so after I returned from work, so my child was still less than six months old, I was asked if I wanted to have the opportunity to go and do one of these multi-city road shows, client trip to Europe. I'm based in New York, so this was logistically a very challenging task and I remember debating quite a lot whether or not I would manage to do that. I had no doubts that I could actually do very well with the various presentations and meetings, but I was just really unsure how I was going to juggle the whole nursing kind of situation.

And to this day, that is something that I really remember doing. And I'm actually really grateful in some ways, even though it was a very difficult trip, that one, I proved to myself that I could do it. But two, I think looking back, the lesson I took away from that is that I think as managers, you should not adjust necessarily the expectations for someone who's returning to work. You should actually give them the full options that you would be giving to them, whether or not they are returning from maternity leave or paternity leave, but you should let them make the choice.

Michael Disabat...: It's hard to say this in the right way because I'm recording myself, but I have to say those stories did make me emotional because, full disclosure, I have an almost one-year-old. And my emotional and physical experience is different than the women I work with that actually had to give birth. But the end of fatigable urge to remain myself and yet do anything for my daughter is one I recognize in these stories and understand on a much more visceral level than ever before. So I really wanted to thank my colleagues for sharing their stories on this, and I wanted to thank you for listening.

And that's it for the week. I want to thank you again for listening and for all my colleagues talking to me about the news with an ESG twist. If you liked what you heard, don't forget to rate and review us, and subscribe if you want to hear myself or the other hosts of ESG Now in your ears each week. Thanks again and talk to you soon.

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