Gender Inequality, Growth and Global Ageing

Closing the gap between male and female employment rates would have huge economic implications for the global economy, boosting US GDP by as much as 9%, Eurozone GDP by 13% and Japanese GDP by 16%. The experience in Scandinavia suggests that such an outcome is achievable, given the right government policies and a wide cultural acceptance of equal female employment.

Increasing female employment has already been an important driver of European growth in the past 10 years. A narrowing of the difference between male and female employment rates has accounted for half of the rise in Eurozone's total employment rate and 0.4pp of its 2.1% trend growth since 1995. Encouraging more women into the labour force has been the single-biggest driver of Eurozone's labour market success, much more so than "conventional" labour market reforms. The US and Japan, while starting from very different positions, have both made little progress in narrowing the gap between male and female employment in the past 10 years.

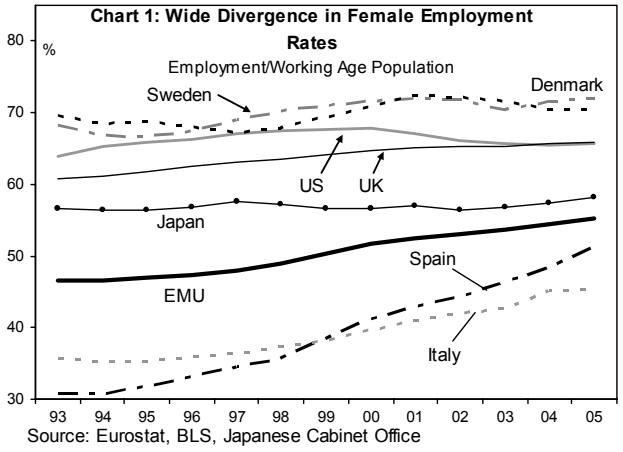
For some European countries, there are hopeful signs that the narrowing in the male-female employment gap is likely to continue. Female participation rates among younger age cohorts in the Mediterranean countries (and in Spain in particular) are high, suggesting that total female participation is likely to continue to rise. The same is not true for the US and Japan, where age-specific participation rates have been broadly stable for some time.

In addition to raising incomes, facilitating women's labour force participation would help to boost low fertility rates in the developed world. Women in many countries are effectively faced with the choice of *either* working *or* having children (because the tax and benefits system penalises second household earners and because childcare is expensive). In countries where it is relatively easy to work and have children, female employment and fertility *both* tend to be higher. It is no coincidence that the economies where the problem of population ageing is most acute – namely Italy and Japan – are also those where female employment is lowest.

Governments could do much more to close the male-female employment gap: reducing tax distortions that discourage female employment, eliminating differences in retirement policies and subsidising childcare are three obvious examples. Progress in this area would both significantly boost potential growth *and* help to solve the Global Ageing problem.

Gender Inequality and Labour Market Performance

Employment rates differ substantially across countries. The proportion of 15-64 year olds in employment in the Eurozone is 64%, 8 percentage points lower than the corresponding figures for the US and the UK, 9pp lower than Sweden, and 12pp lower than Denmark. Economists have probably written more on the causes of low European employment than on any other economic issue facing Europe today. Encouragingly, some progress has been made in recent years in boosting employment.



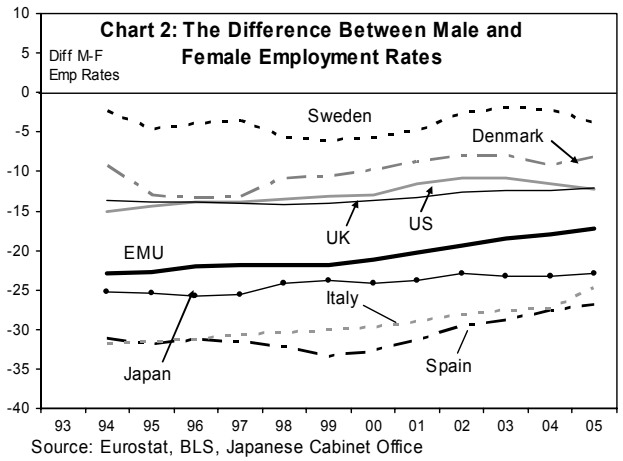
Source: Eurostat, BLS, Japanese Cabinet Office

Yet, for all the attention paid to differences in employment rates across countries, the role that gender inequality plays in driving these difference is not widely appreciated. While total employment in the Eurozone is substantially lower than in the US, UK and Scandinavia, this gap becomes a gulf when female employment rates are considered in isolation. Female employment in the Eurozone is 10pp below the US, 11pp below the UK, 15pp below Sweden and 17pp below Denmark (see Chart 1). The gap between female employment in the Mediterranean and Scandinavian countries is a massive 20-25pp!

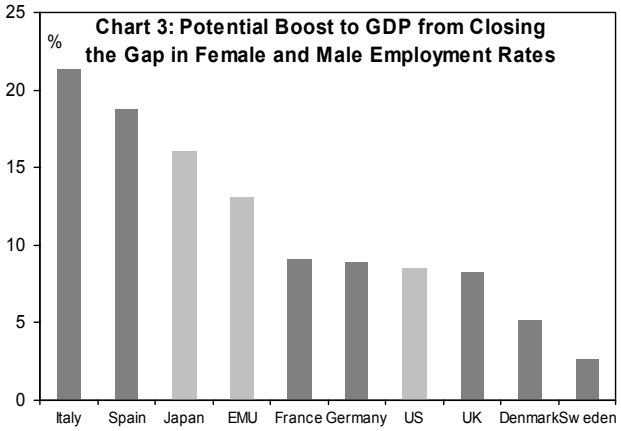
Is Low Female Employment Simply A Symptom of Europe's Wider Labour Market Woes?

To some extent, of course, the problem of low female employment simply reflects wider labour market rigidities and is not specifically a gender issue. Female employment in Germany and France, for instance, although lower than female employment in the US, is no lower *in relative terms* than male employment. This suggests that, compared with the US at least, Germany and France have a generalised employment problem rather than a female employment problem.

But this is not true for other countries. In order to isolate the gender effect from wider labour market problems, we



Source: Eurostat, BLS, Japanese Cabinet Office



Source: National Sorces, GS Estimates.

consider the difference between male and female employment rates for each country in Chart 2. For the Eurozone as a whole, and for Italy and Spain in particular, the male-female employment gap is especially large, indicating that gender inequality plays an important part in its low overall employment. Italy's female employment rate, for instance, is 25pp below its male employment rate.

Japan also comes out badly in this comparison. Male employment in Japan is highest of all the major industrialised countries. But its overall employment rate is no better than average because the male-female employment gap is so large.

Note also that the US – often considered the benchmark for structural economic comparisons – does not represent "best practice" in terms of female employment. While the US female employment rate is 12pp below male employment, the gap is less than 5pp in Sweden. The examples of Sweden and the other Scandinavian countries suggest that, with the right polices and a wide cultural acceptance of equal female employment, the difference between male and female employment rates can be reduced to close to zero.

The Economic Implications of Closing the Male-Female Employment Gap

Closing the gap between male and female employment rates would have huge economic implications. Were Italian female employment to rise as high as male employment, then the level of GDP (assuming everything else equal) would be boosted by 21%. For Spain, GDP would be 19% higher, the Eurozone 13%, Germany 9%, France 9%, the US 9%, the UK 8%, Denmark 5% and Sweden 3% (see Chart 3).[1]

Admittedly, it is unrealistic to assume that everything else would be equal. First, raising the employment rate (for males or females) tends to lower productivity, because it reduces the capital-to-labour ratio and new hires typically have fewer work-related skills than those already in employment. Second, the ability to work on a part-time basis appears to be one of the key factors in attracting women back into work after child birth, so policies designed to boost female employment could also result in a decline in average hours worked.

Even accounting for these offsetting effects, however, the potential boost to income from raising female employment would still be enormous. To put the Eurozone's potential gain of up to 13% into context, the (much more commonly cited) objective of raising Eurozone productivity to US levels would boost GDP by "only" 7%. An increase of 13% would close around half of Eurozone's income per capita gap with the US.

The Causes of Low Female Participation

Low female employment is typically due to a combination of cultural and policy-related factors. Culture and policy are clearly related, in that a country's policies largely reflect its culture. The Scandinavian economies, for instance, have a long tradition of female equality and policies that reflect this tradition.

But policies and culture can also be distinct. The US has a long tradition of female equality in the workforce but has few of the state-sponsored policies that would facilitate women returning to the workforce after child birth. This perhaps reflects its tradition of limited state intervention of any form.

As it is easier for a government to address a country's policies than its culture, we focus on three policy areas where practical changes could be made to level the playing field and boost female employment. As things stand, tax and retirement policies actively discourage women from obtaining paid work.

- **Equality of tax treatment:** The existence of a married-couples' tax allowance has traditionally discouraged women from entering the workforce. Most (but not all) countries have now moved away

1. These estimates are derived as follows (taking the Eurozone as an example): Eurozone male employment in 2005 stood at 71.8%, 8.3 percentage points, or 13.1%, higher that the overall employment rate of 63.5%. Raising female employment to the male employment level would, therefore, boost overall employment by 13.1% and, assuming everything else is equal, GDP by a similar amount.

from joint taxation and towards tax individualisation but distortions in the tax and benefits system persist. According to the OECD, the average tax rate for a second earner in the OECD is 1.4 times that of the first earner. In Sweden the ratio is exactly 1.0 (i.e. there is no distortion), but in Italy and Spain it is 1.6, in Germany 1.5, in the US and UK 1.3, and in France and Japan 1.2.

- **Equality in statutory retirement ages:** A number of European counties – including Germany, Italy and the UK – have a lower statutory retirement age for women than for men. (This is somewhat perverse given that male life expectancy is typically less than for women). Germany and the UK are both phasing out these differences from 2009 and 2010, respectively. Other countries should follow suit.

- **Subsidised childcare:** Cross-country studies, conducted by the OECD among others, find that subsidised childcare boosts female participation by raising the rate of return to work. Public expenditure on childcare averages 0.7% of GDP in the OECD. It is relatively low in countries such as Japan (0.3%), Spain (0.4%), the US and UK (both 0.5%); it is relatively high in Denmark (2.7%), Sweden (1.9%) and France (1.3%).[2]

Gender Inequality and Global Ageing

Changes in these three policy areas would boost female employment and economic growth. But the issue of female employment is not merely economic in nature. Some fear that the breakdown of the traditional family model is contributing to lower fertility rates in the developed world. However, the facts contradict this view entirely. Chart 4 plots the male-female employment gap against fertility rates, revealing a significant *positive* correlation between fertility and high female employment.

This result is not as surprising as it may seem: faced with punitive tax rates and expensive childcare, women in many countries effectively have the choice of *either* working *or* having children. (This is especially true of low-income families where the return to employment relative to the cost of childcare is low.) Faced with such a choice, fertility and employment rates both suffer. By contrast, in the countries where it is relatively easy to work *and* have children, female employment and fertility both tend to be higher.

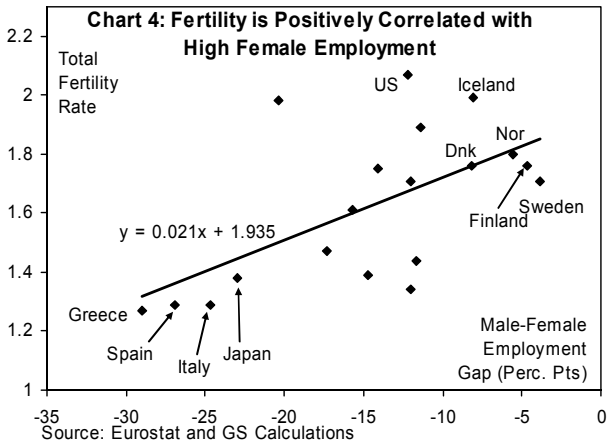
It is no coincidence that the economies where the problem of ageing populations/pension sustainability is most acute – namely Italy and Japan – are also those where female employment is lowest. With low fertility rates and overall employment dragged down by low female participation, old-age dependency is high and rising.

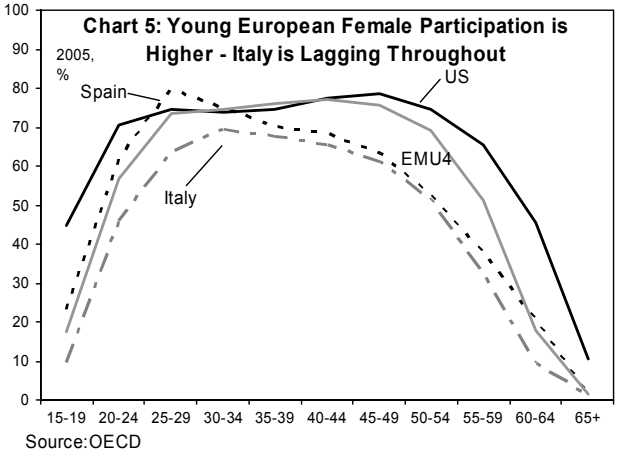
Closing the male-female employment gap would help to address the problem of global ageing in two ways: directly, through boosting employment among those of working age (thereby reducing the dependency ratio), and indirectly, through boosting fertility rates.

Women Drive Economic Growth

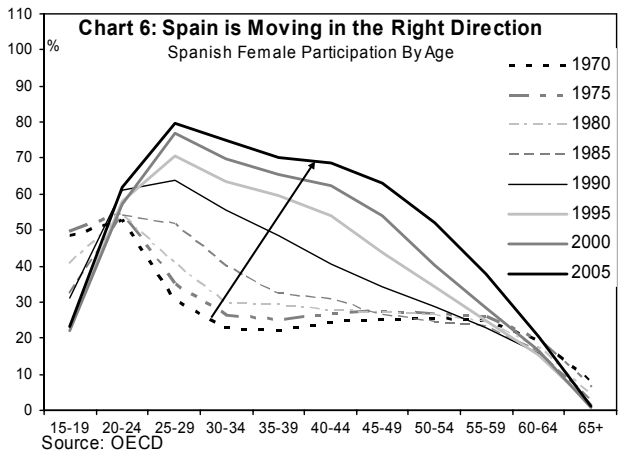
Raising female employment to male employment levels would boost US GDP by as much as 9%, Eurozone GDP by 13% and Japanese GDP by 16%. Realistically, such a transformation could only take place over a number of years, so what would be the potential impact on European growth during the transition?

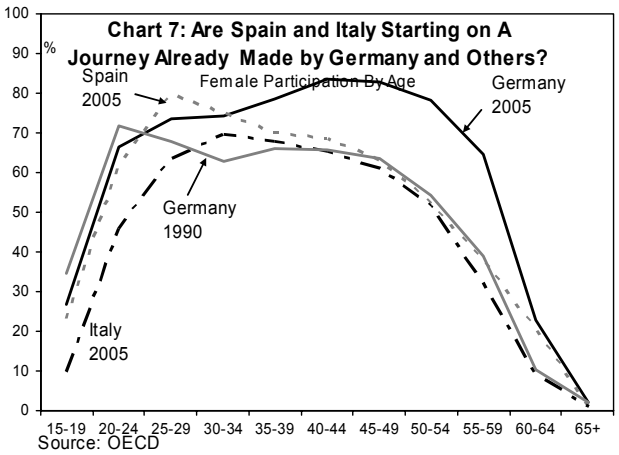
The process of raising Eurozone female employment is already underway – the male-female employment gap has narrowed from 23pp to 17pp in the past 10 years – and the impact on overall employment and growth has been substantial. Of the 6pp rise in Eurozone's total employment rate witnessed since 1995, around half was due to a narrowing of the difference between male and female employment rates alone. Encouraging more women into the labour force has been the single-biggest driver of Eurozone's labour market success, much more so than "conventional" labour market reforms.





2. There are no data for the public funding of childcare in Italy.





The good news is that this process appears likely to continue. Age-specific data on participation rates in the Mediterranean countries reveal much higher female participation among younger age cohorts than in older age cohorts, suggesting that changes in female participation are ongoing (see Chart 5). The outlook in Spain is especially encouraging: participation rates among 20-30 year old women are now higher than the US and the Eurozone average, and we have seen a rapid progression in female participation across all age groups (see Chart 6). Some improvement in Italy also appears to be underway, but it is less marked.

In other countries where female employment has already risen significantly, the transition started with higher female participation in younger age cohorts. The age-specific profile of female employment in Spain today looks much like Germany or France 15 years ago (see Chart 7). Given high participation rates among younger age cohorts, the passing of time alone is likely to reduce further the difference between male and female employment rates, as older cohorts (where participation is low) are replaced by younger cohorts.

In Table 1 we present a range of potential contributions to GDP growth from rising female participation over the next 10 years for the US, Japan, the UK and the four large EMU countries. The central estimates assume unchanged polices and that higher female participation in younger age cohorts translates into higher participation across all age spectrums with the passing of time.

The central projection for the Eurozone is 0.25%, reflecting the relatively high participation rates among younger age cohorts.[3] The central estimate, while high, is actually lower than the contribution over the past 10 years (+0.25% vs. +0.4%) and may prove to be too cautious given legislative changes that have already been passed and are due to come into effect (such as Germany's higher retirement age for women).

For the UK, the central estimate is only +0.1%, reflecting the fact that female participation is already reasonably high (and so the room for further improvement is more limited) and that there has been a stabilisation of female participation rates in younger age cohorts.

For Japan, it is also only +0.1%. This reflects that female participation there has risen little in the past 10 years in any age cohort, despite the fact that participation rates are rising from low levels (see Chart 8).

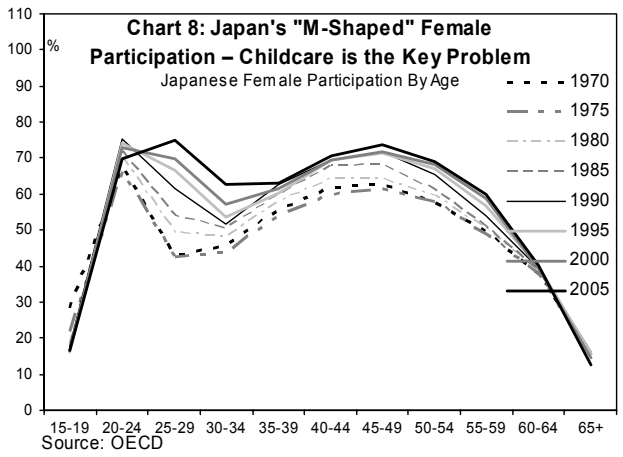
For the US, the central estimate is zero. Strictly speaking, given that female employment in younger age cohorts has actually fallen in the past 10 years, our methodology suggests that total female participation is likely to fall in the next 10 years. However, we assume that the decline is partly cyclical in nature, reflecting the sharp downturn in the early-2000s, and that lower female participation in younger age cohorts will not be passed through to older age cohorts.

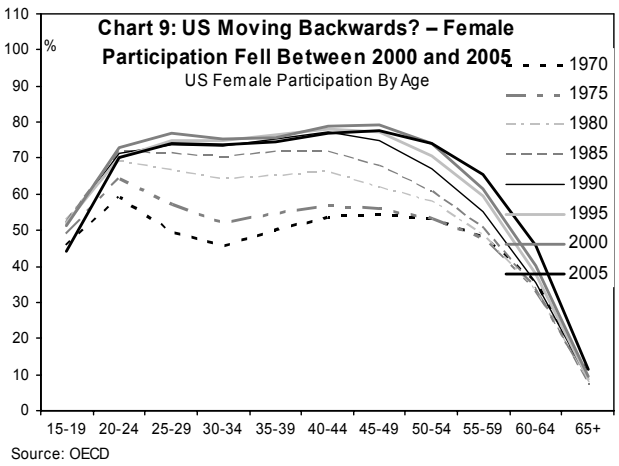
The ranges around the central estimates are as important as the central estimates themselves. With the right

Table 1: Projected Boost to GDP from Rising Female Employment

2005-2015	US	Japan	UK	Germany	France	Italy	Spain	EMU4
Low	-0.15	0.00	0.00	0.05	0.10	0.10	0.20	0.10
Central	**0.00**	**0.10**	**0.10**	**0.15**	**0.20**	**0.30**	**0.45**	**0.25**
High	0.15	0.50	0.20	0.25	0.30	0.60	0.60	0.40

3. Some readers may be concerned that labour supply could be translated into higher unemployment rather than higher growth. As a general point, we would argue that there is no correlation between labour supply and unemployment (because supply creates its own demand). But this is a moot point in this case as, even accounting for higher female participation, Eurozone labour supply growth will be less over the next 10 years on our projections than it was over the past 10 years (when unemployment actually fell).





policies in place, the boost to growth could be much bigger than our central projections. In the absence of the right policies, equally, it is also possible that higher young female participation will not translate across the age spectrum.

These ranges are wide, reflecting the fact that policy implementation will have a material impact on the actual outcome. But in some countries they are wider than others. In Japan, for instance, the upper bound of the potential boost is much higher than the central estimate (+0.5% vs. 0.1%), reflecting that, while little progress has been made in boosting female employment in recent years, much more progress could be made with the right policies because female employment is starting from such a low level.

The good news for countries such as Japan and Italy, where female employment is lowest, is that the potential windfalls from putting things right are bigger than for other countries.

Gender Inequality: A Key Factor in Growth and Global Ageing

The male-female employment gap is critical to economic performance. Helping to close this gap, through providing women with a level playing field, would boost growth and go a long way towards addressing the problem of global ageing. With such high stakes to play for, governments have no excuse for inaction.