

Economics

Closing The Gender Gap: Plenty Of Potential Economic Upside

Economics | New Zealand

Event:

- We believe there is a large underutilised pool of highly educated workers in NZ that has the potential to substantially boost NZ's economic performance. Against a backdrop of pending strains that the rebuilding of Christchurch will place on the labour market, we feel this is particularly important.
- Following similar arguments to those presented by our Australian colleagues in December 2009, we believe that with the right set of policies, a further closing of the gender gap in the labour market could help unlock this potential.

Key Points:

- We estimate that closing the male and female employment rates would boost the level of NZ GDP by 10%. Admittedly, progress has been made over the past 40 years with the rise in the female employment rate since 1970 boosting economic activity by 30%. But in this respect, NZ is only three quarters of the way to unlocking the hidden value of the female labour pool.
- But employment rates are not the only noticeable disparity that exists across the sexes. A large gulf exists in the average level of male and female productivity growth in NZ. We believe that this has nothing to do with the relative educational achievement or work experience of the sexes. In fact, females (particularly younger females) are found to now be more highly educated on average than their male counterparts. Instead, we feel it is a result of the tendency for females to be employed in community based sectors of the economy (where outputs can be more difficult to measure and "output" itself may not necessarily be the biggest economic priority), and disincentives for them to remain in the work force.
- We believe a proactive approach by the government to help close some of these disparities will come with considerable economic benefits. This is not only in terms of a potential lift in economic activity, but it comes at a time when NZ is about to embark on a massive reconstruction effort to rebuild damage from the various Canterbury earthquakes. Without any change, earthquake reconstruction will absorb a massive amount of resource for this small country and potentially act as a handbrake on other sectors through higher interest rates and NZ\$.

Potential Policy Initiatives:

- We believe the government could do more to close the male-female employment gap including 1) finding ways to encourage highly educated females to work in sectors outside their "traditional" areas; 2) look at ways to close the gender income gap to further incentivise females to remain in the workforce; 3) ensure a high level of labour mobility in the face of future earthquake related strains on the labour market; 4) minimise issues (such as childcare costs and availability and high effective marginal tax rates for women on family assistance) that deter females from re-entering the workforce; 5) analyse the Scandinavian experience to assess where any policy synergies could be adopted in a NZ framework; and 6) ensure further progress on getting women into leadership roles in NZ, with the potential for specific targets being set.

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Executive Summary

In 1893, NZ became the first country in the world to give women the right to vote and has long thought of itself as a global leader in terms of human rights and gender equality. While there is evidence to suggest NZ has a better record than many countries on this front and in the labour market in particular, we believe there is certainly room for improvement. A number of (some large) disparities still exist between the sexes.

In December 2009, our Australian colleagues released some research on Australian female labour force participation and industrial trends in female productivity growth. They concluded that a large underutilised pool of highly educated workers had the potential to substantially boost Australia's economic performance.

We undertake some similar research in a New Zealand context and come to comparable conclusions. In fact, we estimate that if the female employment rate was to rise to be on par with the male employment rate, this would boost the level of NZ GDP by 10%. Admittedly, progress has been made over the past 40 years with the rise in the female employment rate since 1970 boosting economic activity by 30%. But in this respect, NZ is only three quarters of the way to unlocking the hidden value of the female labour pool.

But employment rates are not the only noticeable disparity that is present across the sexes. A large gulf exists in the average level of male and female productivity growth in NZ. We believe that this has nothing to do with the relative educational achievement or work experience of the sexes. In fact, females (particularly younger females) are found to now be more highly educated on average than their male counterparts. Instead, we feel it is a result of the tendency for females to be employed in community based or social-oriented sectors of the economy such as healthcare, education and support services (where outputs can admittedly be difficult to measure), a bias towards clerical roles, and as a result of disincentives that exist for them to remain in the work force.

We feel more work should be done to assess what motivates females to work in certain sectors of the economy. Are females inclined to various roles because of barriers or stereotypes in other sectors? Is it because of the predominance of females in these sectors already? Is it the types of qualifications that females are attracted to after school? Or is it that females draw wider benefits and work satisfaction outside of just remuneration?

We believe a proactive approach by the government to help close some of these disparities will come with considerable economic benefits. This is not only in terms of a potential lift in economic activity, but it comes at a time when NZ is about to embark on a massive reconstruction effort to rebuild damage from the various Canterbury earthquakes.

Without any change, earthquake reconstruction will absorb a massive amount of resource for this small country and potentially act as a handbrake on other sectors. Unlocking a pool of highly educated labour in conjunction with a lift in female productivity performance could lift the economy's speed limit before capacity constraints are reached. All else being equal, this will potentially reduce the extent that the RBNZ needs to tighten monetary policy in the future and therefore take some pressure off the NZ\$ to appreciate.

Figure 1: Firms are already reporting it more difficult to find both skilled and unskilled staff

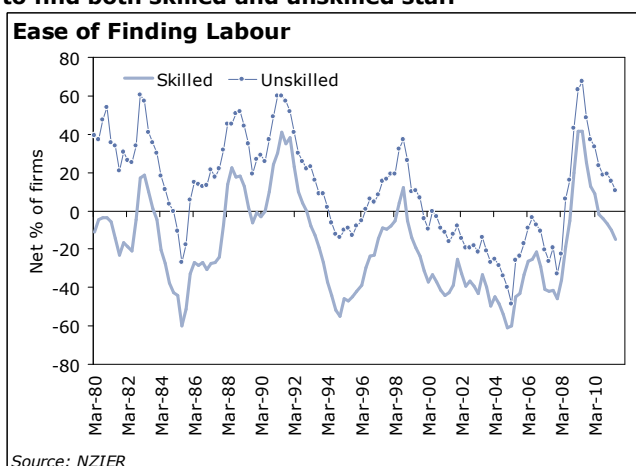
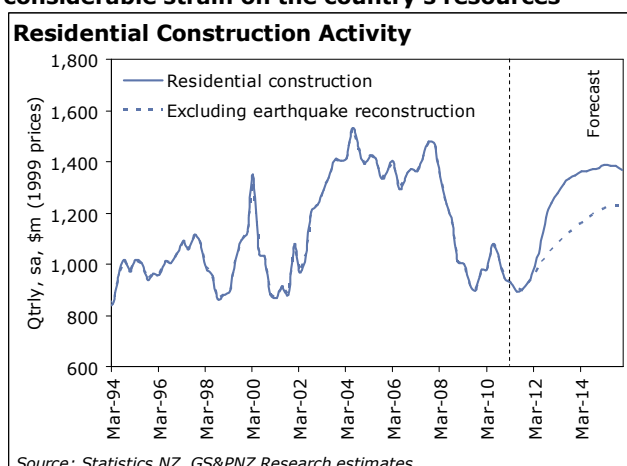


Figure 2: The extent of rebuild will place a considerable strain on the country's resources



Furthermore, increased female employment rates have the added benefit of helping to address the problem of pension sustainability through reducing the effective dependency ratio. It will also lift disposable incomes for females and taxation revenue for the government.

The Scandinavian countries stand out as pace setters in terms of small gender employment gaps and we believe they have benefited strongly as a result of improvements made over the years. While there is no doubt a cultural element to this, we believe public policy has an important role to play. Specifically, we believe there is a clear role for government to introduce policies and initiatives to close the male-female employment gap including:

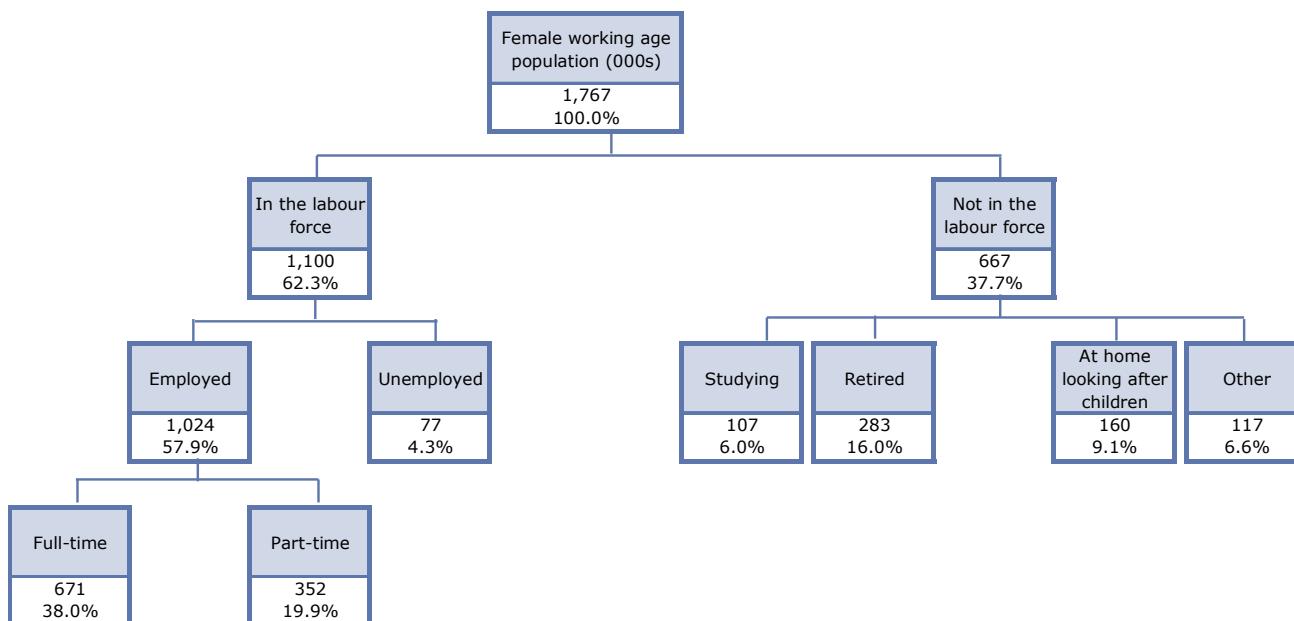
- Finding ways to incentivise females with high levels of education to work in sectors outside of their "traditional" sectors such as education, health and support services.
- Looking at ways of further closing the income gap that will therefore incentivise females to enter and remain in the labour force.
- Ensuring a high level of labour mobility (at both the regional and sectoral levels), which will become more important given the considerable amount of resources that earthquake reconstruction will absorb.
- Looking at issues that act as deterrents for females to enter (or re-enter) the labour force such as the availability and cost of childcare and the high effective marginal tax rates for some females on family assistance.
- Analysing the Scandinavian experience to assess where there are any policy synergies that could be adopted in a NZ framework.
- Ensuring that further progress (with the potential for the introduction of specific targets) for increasing women in leadership roles in NZ. Research has not only shown that this can lead to better decision-making at the board and executive level, but the increased visibility of females in greater positions of power will likely have the flow-on effect of lifting female participation and potentially encouraging females into employment in other sectors, rather than just "traditional" industries.

NZ Women in the Workforce: Some Key Observations

Females represent 50.9% of the NZ population and 46.9% of the labour force. Of the 1.8 million females of working age, 62.3% declared themselves as part of the labour force in the year to March 2011 (the female participation rate). This was either by already being in paid work (1.0 million), or by actively seeking work (77k). Close to two-thirds (or 671k) of those employed were employed on a full-time basis. For the 667k females not in the labour force, 283k classed themselves as retired, while a further 160k were at home looking after children.

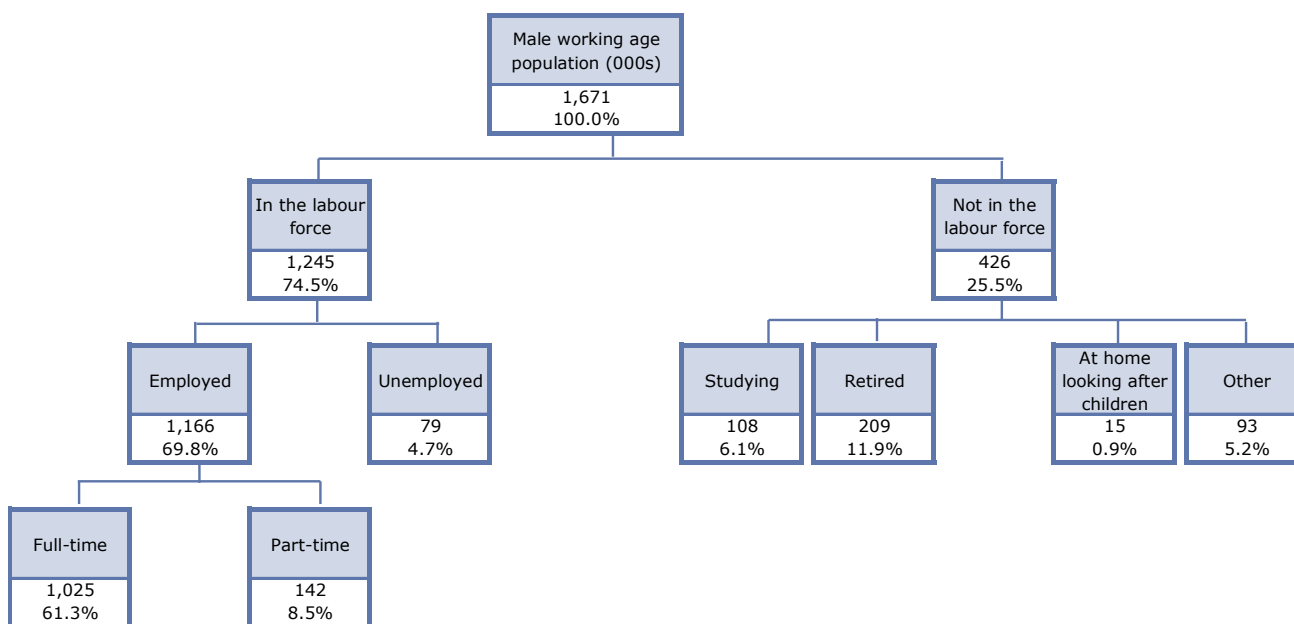
The major difference between this structure and the male labour force surrounds the proportion of the male working age population in the labour force (74.5%) and also the number of males employed on a full-time basis (87.9%). Furthermore, only 15k males stated that they were at home looking after children.

Figure 3: Structure of female workforce



* percentages are relative to the working age population
 Source: Statistics NZ, GS&PNZ Research estimates

Figure 4: Structure of male workforce



* percentages are relative to the working age population
 Source: Statistics NZ, GS&PNZ Research estimates

Hours worked

In the 12 months to March 2011, we estimate that females worked a total of 117 million hours, or 40% of the total hours worked. One distinguishing feature of the female labour force is the average work week. On average females worked 28.1 hours per week in the year to March compared with the 37.3 hours worked by their male counterparts. For females, this is broadly similar to the average since 1986, while the current male work week is around 4% below its historical average (figure 5).

This reality is clearly a result of a higher concentration of female employment in part-time roles. In fact, there are more than twice as many employed females in NZ working on average between 1 and 30 hours a week than males. Conversely, there are twice as many males than females working in excess of 40 hours per week (figure 7).

An interesting flow through from this is that total female hours worked appears modestly more immune to the economic cycle than total males hours worked. This is particularly the case in economic downturns, where total male hours worked has typically declined more than total female hours worked.

Figure 5: The average female work week has remained around 29 hours since 1986

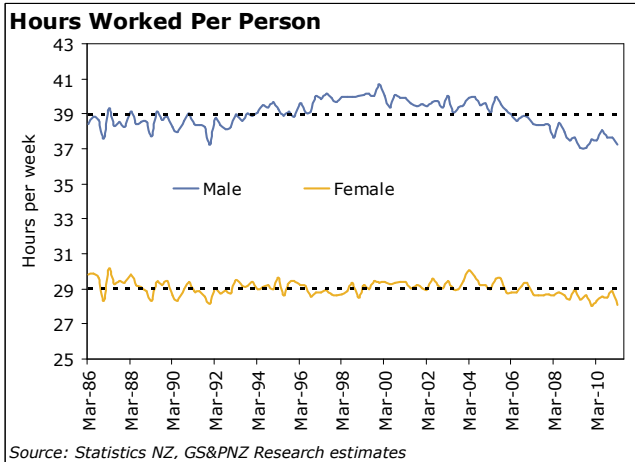


Figure 6: Total male hours worked appears slightly more cyclical than for females

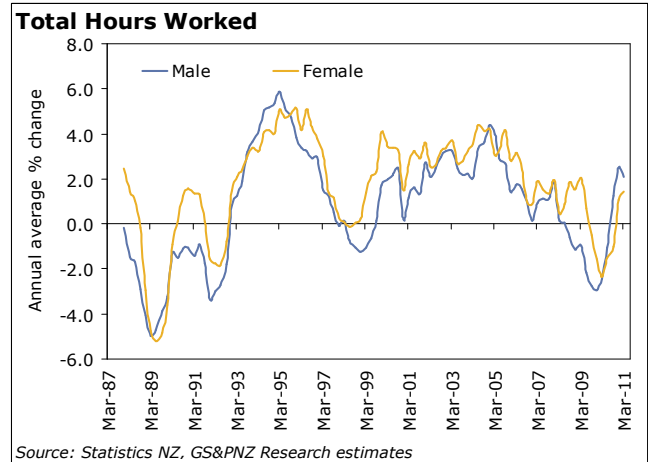
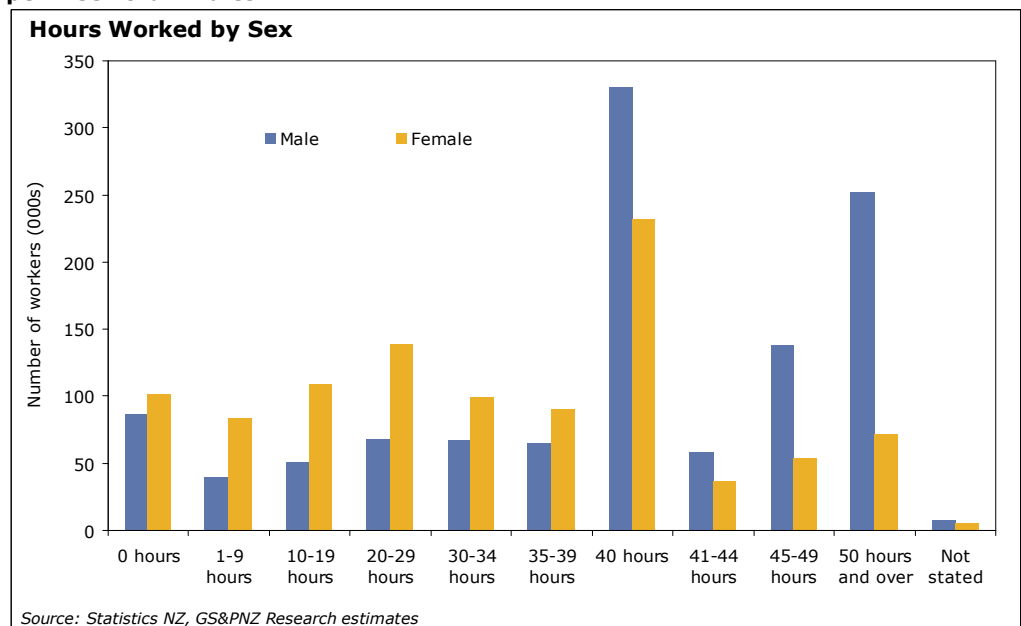


Figure 7: There are more than twice as many females working less than 30 hours per week than males



Part-time employment is often thought of as more flexible than full-time employment. While not always the case, during periods of softer activity, part-time employees are likely to accept fewer hours but stay in employment, when full-time employees are at greater risk of losing work altogether.

The latest economic cycle is not necessarily a good example as we believe skill shortages leading up until the downturn meant that firms in general were reluctant to lay off staff (even those employed on a full-time basis). However, in previous periods of economic weakness, male employment has typically contracted more and the male unemployment rate risen further than the comparable female measures (figures 8 & 9).

Figure 8: In previous economic downturns, the male unemployment rate typically has risen further ...

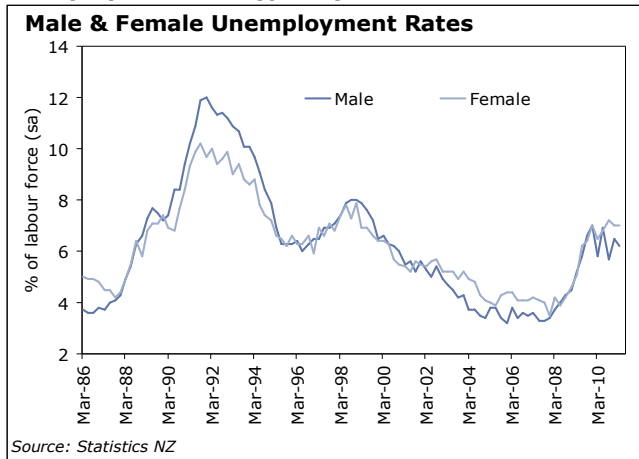
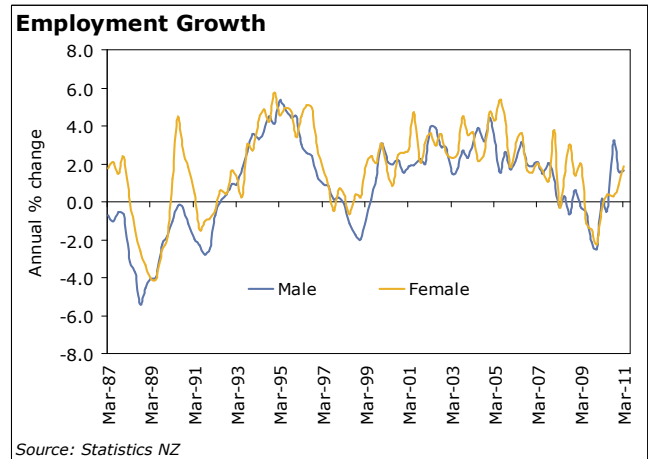
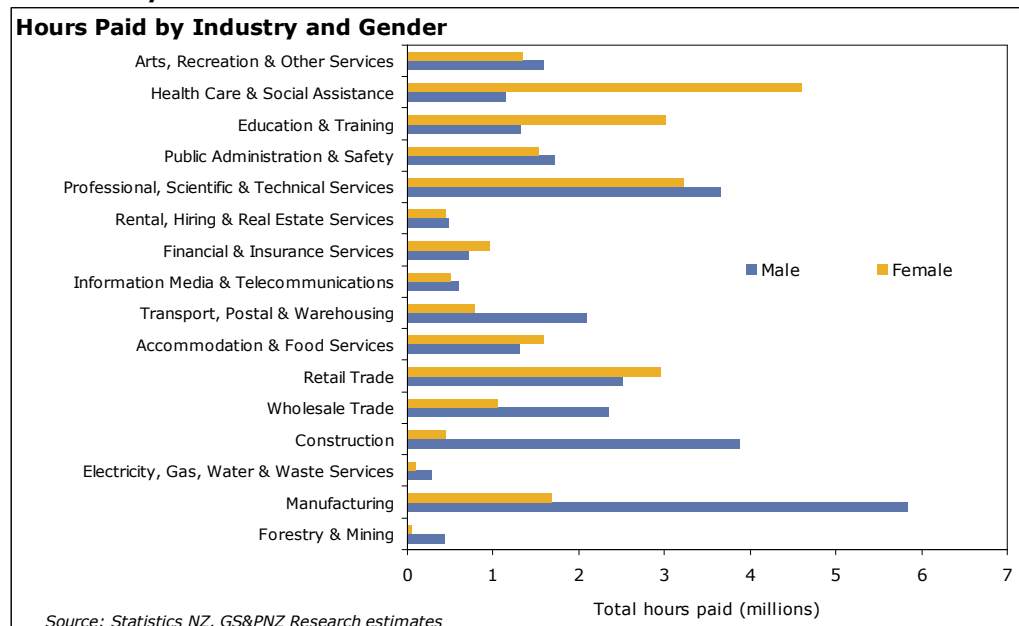


Figure 9: ... and employment growth contracts further than for females



But it is not just the greater tendency for females to be employed on a part-time basis that partly insulates them from the economic cycle. There is also a large concentration of females that work in non-cyclical sectors of the economy such as healthcare, education and professional and scientific services (45% of all females hours worked). In fact, combined with the retail industry, 57% of total female hours worked are concentrated in just four industries.

Figure 10: A large concentration of females are employed in just a few sectors of the economy

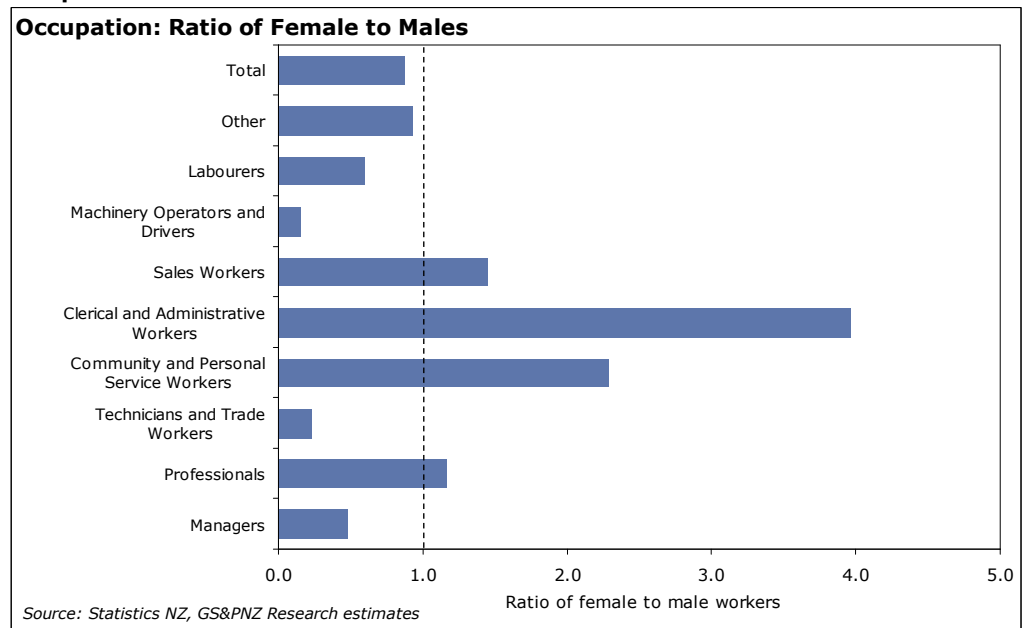


Occupation

This considerable skewness in female workforce structure towards social service oriented employment is also evident in occupational data. Females are close to four times more likely to be employed in clerical and administrative type roles than males and more than twice as likely to be employed as community and personal service workers.

Most startling is that despite more females now being employed in professional roles than males (around 1.2 times), a female is around 50% less likely to be employed as a manager (figure 11). While not shown here, we have also found that females are 50% less likely to be self-employed or an employer of wage and salary earners.

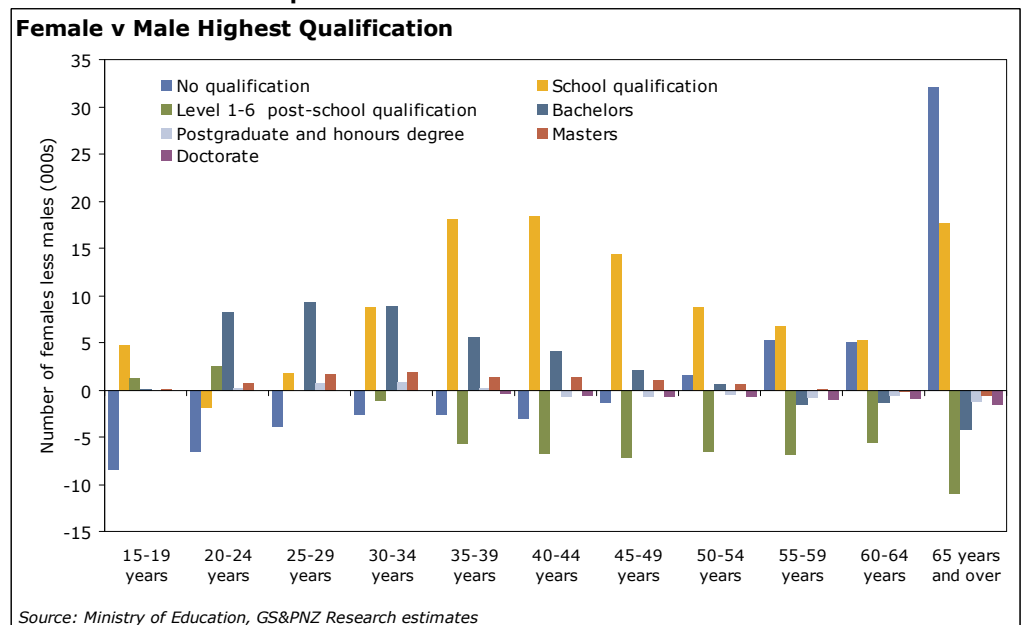
Figure 11: Significant skew also exists in the female workforce based on occupational data



Education

Despite a lower participation rate and the concentration of females employed in only a few sectors of the economy, females are generally more educated than males in NZ. This is particularly the case for younger females. In fact, younger males (15-29 years) are 30% more likely than females to have no qualification. Across the entire working age populace, 15% of females' highest qualification is a Bachelors degree or higher, compared with 14% of males. For those aged under 40 years, the female figure jumps to 19%, while it is unchanged at 14% for male workers.

Figure 12: Females (particularly younger females) are now more highly educated than their male counterparts



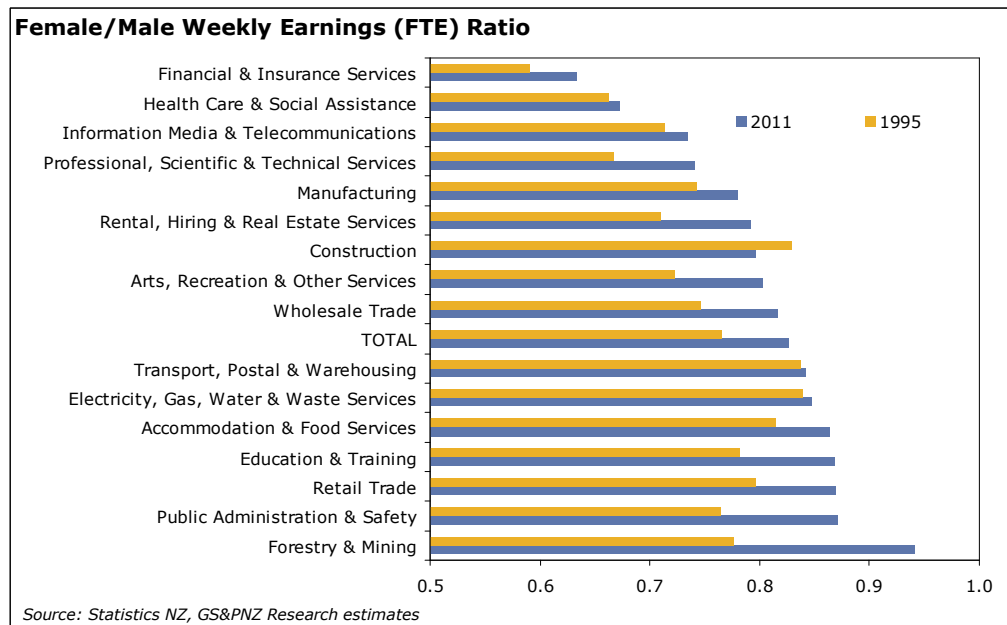
Income

Where the disparity between genders in the workforce is arguably most infamous, and has long received attention, is in the gulf between male and female pay rates. While this gap has encouragingly closed in the majority of industries in NZ over the past 16 years, on average females still earn only 83% of that of males on a full-time equivalent basis.

Despite the dominance of females in four main industries in terms of employment and hours worked, there is not a single industry where females earned more than their male

counterparts on average. In fact, the healthcare and social assistance sector has one of the widest pay gaps between the genders and this gap has not improved much from 1994. Somewhat surprisingly, where the gap is the smallest, is in the forestry and mining industry - a traditionally male dominated industry, while the finance and insurance services industry had the widest pay gap. The construction sector is the only industry where pay gaps have deteriorated over the past 16 years (figure 13).

Figure 13: Females, on average, are paid only 83% of their male counterparts on an FTE basis



More concerning rather than the outright pay differences between males and females is that this gap becomes even more pronounced between the genders as qualification levels increase. In 2006, a female with a Bachelors degree or higher, earned only 37% of a male with a similar degree and this has deteriorated from a 46% difference in 1996. This is hardly sending the right signal for highly educated females to enter and remain in the labour force and attempt to progress their careers.

Table 1: Female median earnings as a percentage of male median earnings

	Highest qualification			
	No qualification	School qualification	Non-degree tertiary	Bachelors or higher
1996	48.0%	59.5%	61.8%	46.0%
2001	51.6%	59.0%	59.9%	37.3%
2006	86.1%	53.5%	56.9%	37.4%

Source: Statistics NZ

However, it should be noted that some of the reasons for these pay differentials may be due to structural issues in various industries around the ability to progress up pay scales. Within industries there could also be roles that have a greater tendency for females to be employed in which is biasing the results. For some roles (within the same industry) significantly more training may be required to progress up pay scales. For example, it would be difficult for a nurse (which has historically been heavily female dominated) to become a doctor without additional training. But this then raises the question: Why are there not more female doctors?

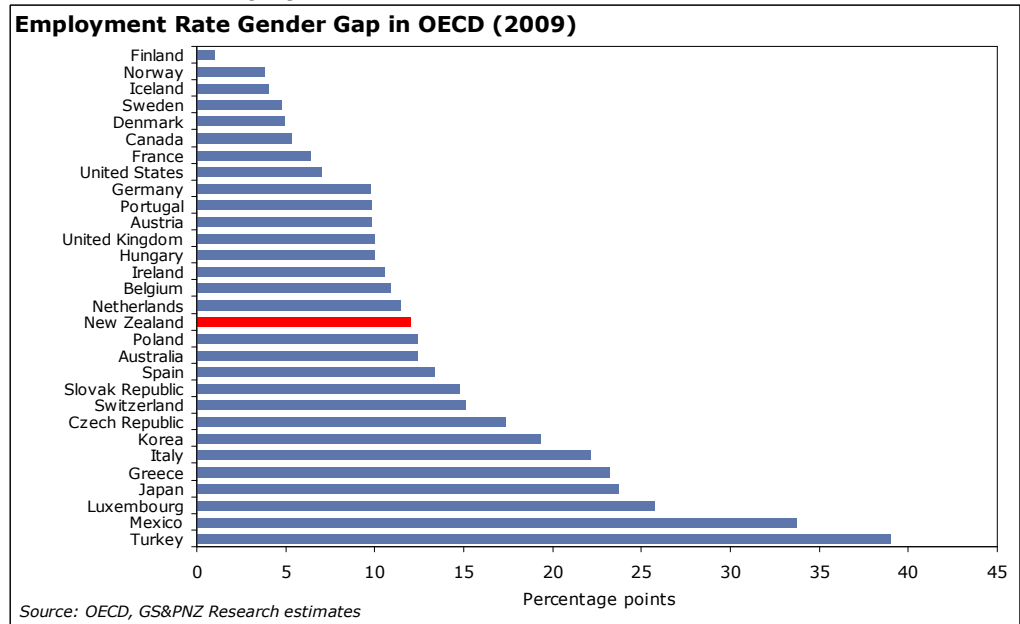
A follow up question to this surrounds the type of study that females are undertaking. While the analysis above shows that females are now on average more educated than males, what it hasn't answered is what areas of study are females more likely to undertake. Are these areas ones that will maximise post-qualification pay rates? It is quite possible, that females are motivated to be in sectors that provide wider benefits and work satisfaction beyond the primary goal of maximising remuneration. This warrants further research in our eyes.

International Comparisons: NZ Gets a Pass Mark

While the above analysis shows that large gender disparities still exist across a variety of labour market indicators, it is useful to see how NZ compares internationally. The absolute is important, but so too is the relative.

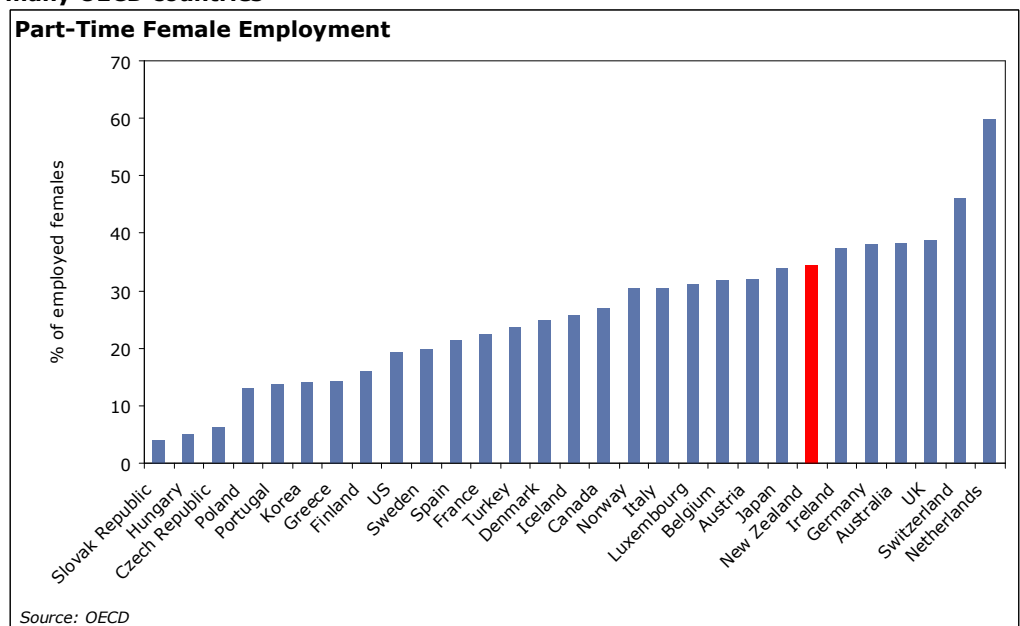
NZ finds itself in the middle of the pack with regards to the gap between male and female employment rates across the OECD. It has a slightly smaller gap than Australia and is similar to the UK. But it is well behind the US and the Scandinavian countries, with the latter generally showing only small differences in the rate of male and female employment.

Figure 14: NZ is in the middle of the OECD pack with regard to the gap between male and female employment rates



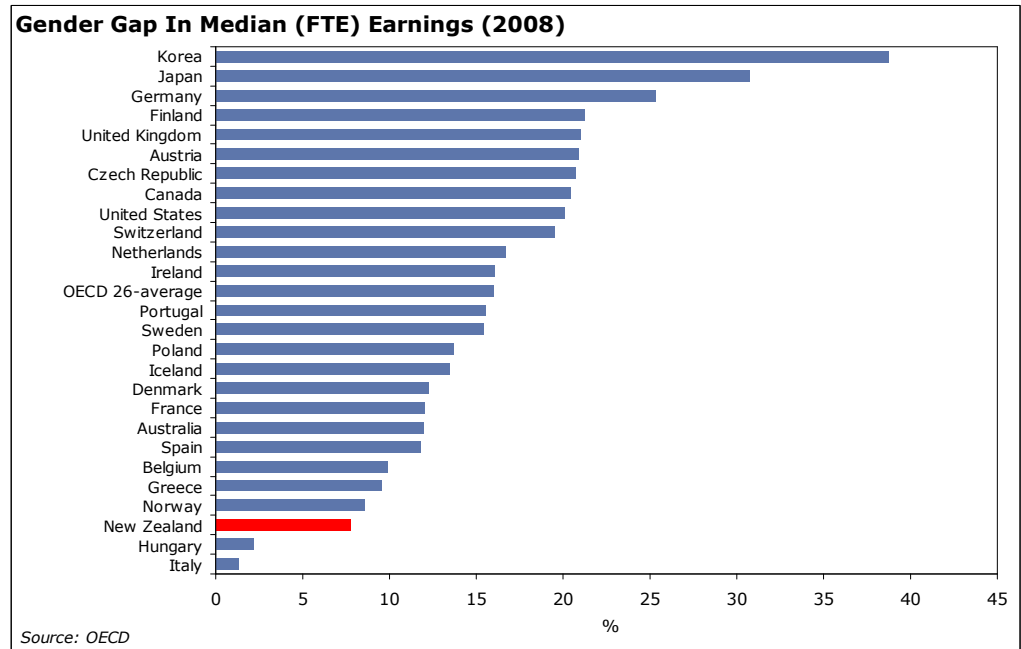
However, NZ's females are more likely to be employed on a part-time basis than many OECD countries. It is unclear whether this is a cultural or lifestyle preference issue in NZ or whether it is something more to do with economic incentives. This is also something that we feel future research should look at.

Figure 15: NZ females are more likely to be employed on a part-time basis than in many OECD countries



Where NZ does perform strongly relative to other OECD countries is on a relative income basis. NZ is in the top handful of countries with the smallest gender pay gaps (median full-time equivalent earnings), at 8%. This puts it well ahead of the OECD average of 16% and the likes of Australia, UK and the US.

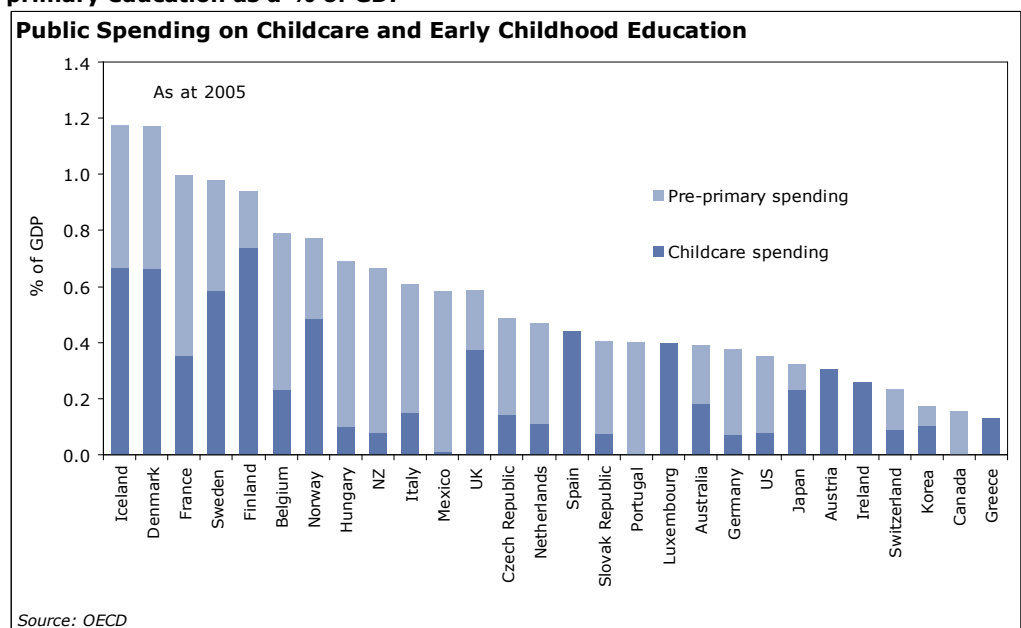
Figure 16: NZ has one of the smallest pay gaps between male and females in the OECD



The Scandinavian countries

The above charts show that the Scandinavian countries stand out as leaders relative to other OECD nations in terms of gender equality in the labour market. Sweden, Finland, Norway and Denmark have only a small gap in employment rates between the sexes. With the exception of Finland (and while still favouring males overall), the pay gaps between males and females in Scandinavian countries are smaller than the OECD average, although interestingly still greater than in NZ.

Figure 17: Scandinavian countries have typically spent more on childcare and pre-primary education as a % of GDP



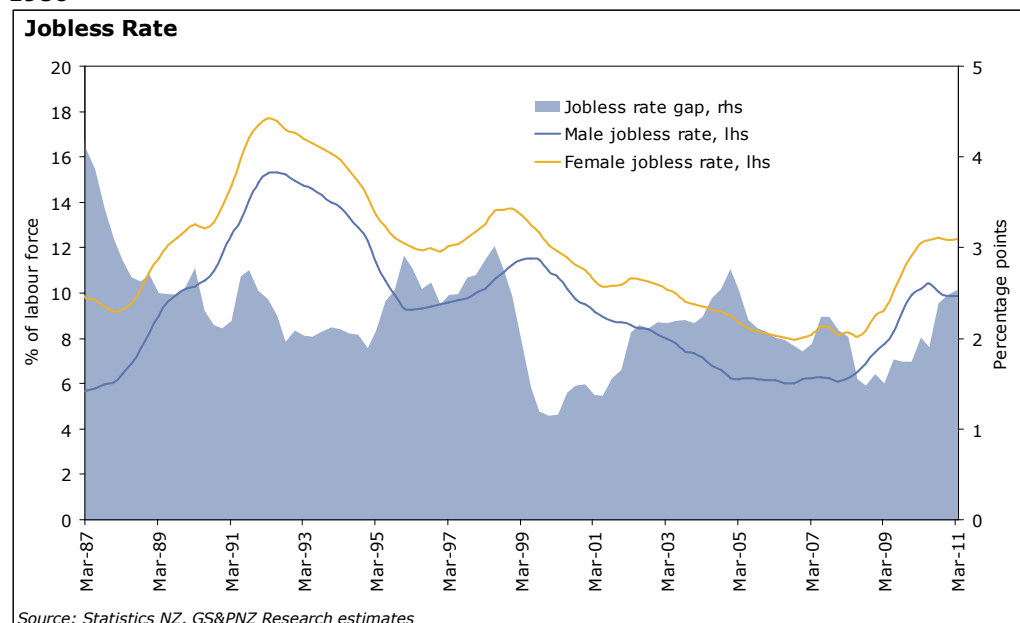
Research by the OECD in 2004 found key characteristics in terms of driving female participation in the labour market were high childcare subsidies, low incidence of females in part-time employment and favourable tax treatment (or more importantly no unfavourable

tax treatment) of second income earners.¹ All the Scandinavian countries shared these traits. In fact, these countries generally spend more as a percentage of GDP on childcare and pre-primary education than most OECD nations. Note that the NZ figure will not include the recently introduced subsidies for early childhood education in 2007.

Impediments for Women Entering the Labour Force

Rather than the unemployment rate, the jobless rate can often be a better indication of the extent of job opportunities in the labour market. The number of jobless not only includes those people who are officially unemployed (available and activity seeking work), but those that are without employment and are either available but not activity seeking work and those activity seeking but not available for work. By definition, the jobless rate is therefore higher than the unemployment rate.

Figure 18: The female jobless rate has exceeded that of males in every year since 1986



In every year since 1986, the female jobless rate has been above that of males, by an average of just over 2 percentage points. There are a number of reasons why a person who would like paid work is not actively seeking it. However, in our minds the main reason for this persistent gap between the male and female jobless rates is likely to be due to responsibilities with childcare.

At every age bracket in NZ, more females are engaged in unpaid childcare than males. This is likely to be a matter of preference for many and we believe is certainly not uncommon relative to other OECD countries.

However, what the perpetually higher female jobless rate compared with males in NZ suggests, as did the 2009 Childcare Survey, is that there are some females that find childcare responsibilities an issue when it comes to finding work. The Childcare Survey found that of all parents who worked, or wanted to work in the 12 months to September 2009, 15% experienced difficulties in getting childcare. For mothers, it was 22%. Common reasons cited were a lack of available care on the times or days needed and that care was too expensive.

Of the mothers who experienced difficulties in getting childcare while working or wanting work, almost half (48%) had to make changes to their usual work as a result. Another 32% had to turn down paid work, 27% were prevented from searching for paid work and 23% were prevented from making changes to their usual work arrangements. In most cases, single parent mothers experienced more work consequences than those in a two parent relationship (figure 20).

¹ See Female Labour Force Participation: Past Trends and Main Determinants in OECD Countries, OECD Economics Department, May 2004

Figure 19: At every age bracket more females than males are in unpaid childcare

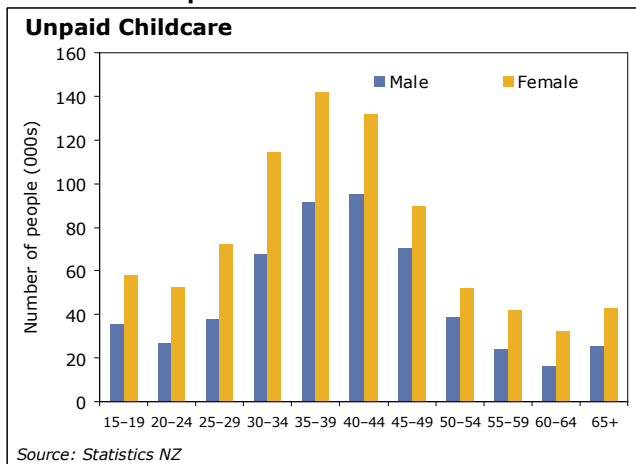
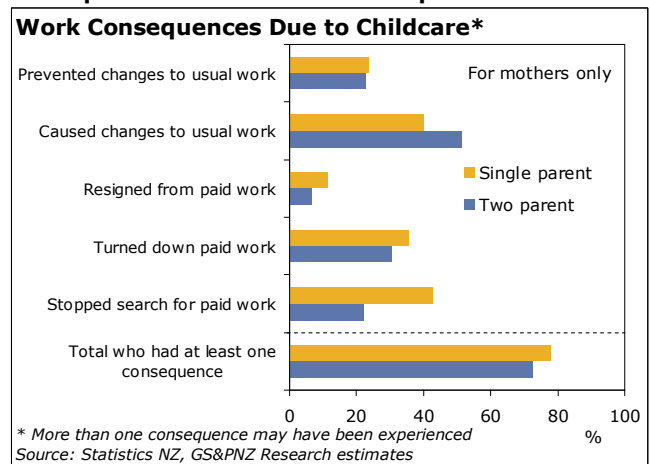


Figure 20: Single mothers often have more work consequences due to childcare responsibilities



Gender Productivity Performance - Room for Improvement

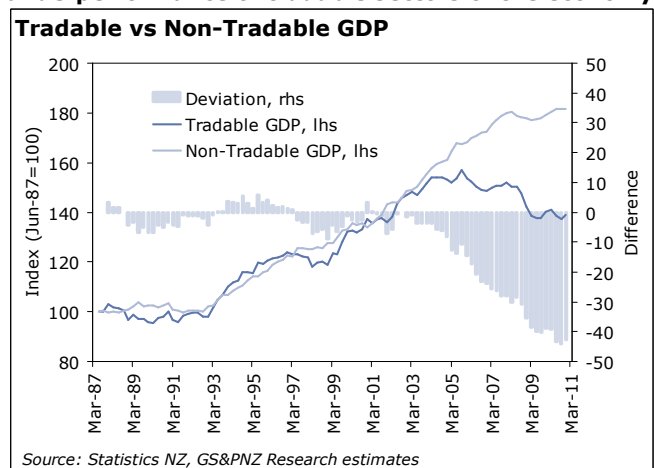
It is well known that over the past decade NZ's productivity performance has been poor. On an hours worked basis, the 5-year CAGR of nationwide productivity growth is now running at just 0.5% (figure 21).

The rationale for this poor performance is often cited as being cyclical. That is, when the labour market was tight and the unemployment rate was falling (troughing at 3.4%), there was a diminishing marginal gain in productivity for every additional worker added. However, we believe that a downward trend in productivity growth over the past decade goes beyond cyclical forces and corresponds to structural issues within the economy. Specifically, we believe this poor performance is in part due to the outperformance of non-tradable sectors of the economy since the turn of the century (figure 22).

Figure 21: NZ's productivity growth has been trending lower for the past decade ...



Figure 22: ... which we believe is in part due to the underperformance of tradable sectors of the economy



While policies to induce a better productivity performance overall will clearly be beneficial for the economy, what is often not commented on is the gap between female and male productivity growth. Female productivity growth has averaged just 0.7%pa (on an hours worked basis) since 1990 compared with 1.5%pa growth in male productivity. We refuse to believe that a female with similar work experience and qualifications will be 50% less productive than a male in a similar role.

An alignment of the female rate to closer to that of males would generate considerable economic benefits to the NZ economy. Productivity growth is the Holy Grail in economics as it not only comes with improved economic performance, but it allows the economy to expand at a faster pace without generating the same capacity and inflationary pressures. All else being equal, this would allow interest rates to be lower over the cycle than otherwise would be the case, taking pressure off the NZ\$ to appreciate. Furthermore, the subsequent boost

to household incomes would come with positive second round impacts for final demand and lift taxation revenue for the government.

Figure 23: Male productivity growth has averaged 1.4%pa since 1990 ...

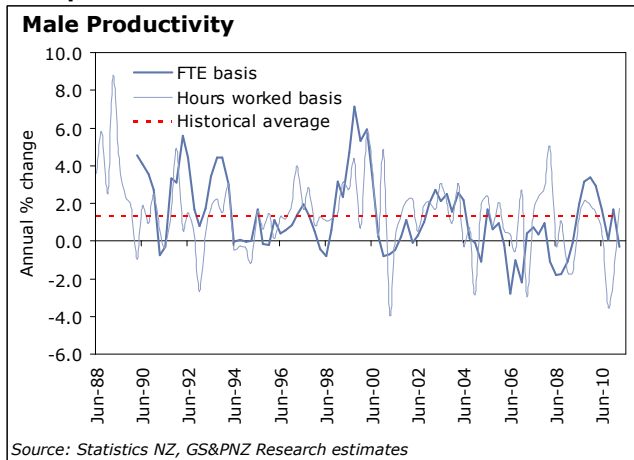
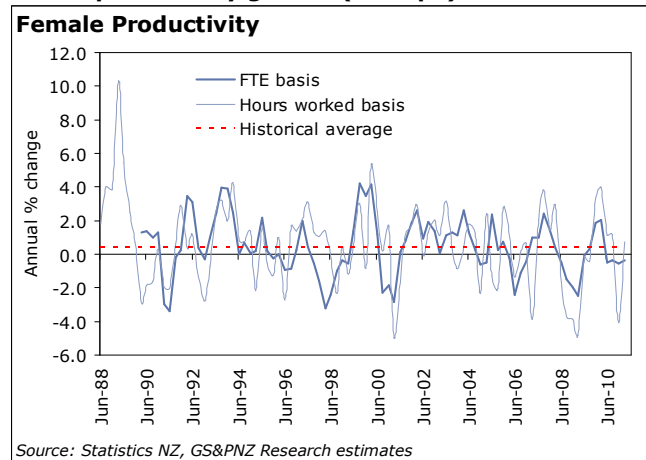


Figure 24: ...which is almost three times the rate of female productivity growth (0.5%pa)



We acknowledge that targeting improved productivity growth is easier said than done and the trend decline since 2000 suggests that there is no "silver bullet". But incentives to shift females out of what appears to be a predisposition to be employed in "traditional" non-cyclical sectors of the economy would assist in our eyes.

Wider Economic Benefits to Closing the Gender Gap

Boosting economic activity

We estimate that closing the gap between male and female employment rates in NZ would boost the level of GDP by a considerable 10%. Admittedly, progress has been made over the past 40 years with the rise in the female employment rate since 1970 boosting economic activity by 30%. But in this respect, NZ is only three quarters of the way to unlocking the hidden value of the female labour pool.

This estimate does assume that raising female employment would leave average productivity (output per hour) and average hours worked unchanged, but it is probably unrealistic to assume that. First, raising the employment rate (for males or females) tends to lower overall 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 females back into work after child birth, so policies designed to boost female employment could also result in a decline in average hours worked.

Nevertheless, a distinction needs to be made between the average impact on productivity across the existing workforce and the marginal impact from new female entrants. The combined impact of higher educated female new entrants moving into a wider range of industries, more career-oriented roles and given the correct incentives to re-engage with the workforce after childbirth may eliminate the impact on aggregate productivity through time.

Lifting the economy's speed limit in the face of resource pressures

Recent business surveys have already started to report firms finding it more difficult to find skilled staff. This can only be expected to intensify as the NZ economy begins to recover more strongly.

Beyond this, the extent of damage and pipeline of required reconstruction work following the Canterbury earthquakes is almost unprecedented on an international scale. Estimates of the total damage range from \$13 to \$20 billion, which would top 10% of GDP. Outside of large disasters in developing countries, we believe a natural disaster has not caused as much damage in a relative sense in a developed economy in modern history.

Being such a small economy, this reconstruction effort will clearly stretch NZ's available resources in order to rebuild in a timely fashion. Labour shortages are likely (with the recent outflow in net migration only compounding the challenges). We have been informed by one

of NZ's largest construction companies that the country will require more than a doubling in the current 77k tradespeople nationwide to help rebuild Christchurch.

These capacity constraints will mean that without any changes, other sectors and regions of the economy will be inhibited as a result. Furthermore, supply side constraints also raise the issue of rising inflationary pressures that would (all else being equal) force the RBNZ's hand in lifting interest rates. This in itself would act as a further headwind for non-earthquake related sectors of the economy. Lifting the female employment rate and productivity growth are ways that could help alleviate some of these potential labour shortage issues.

It is of course unrealistic to think that all of this additional construction labour demand will be met by females. At present, of the 175k people employed in the construction sector, only 22k of those were female. Put another way, only 2% of females were employed in the construction sector (full or part-time) compared with 13% of males.

We see no reason why more females could not be employed in the construction sector and play a role in the rebuilding of Canterbury. Perhaps incentives need to be introduced for some an outcome. However, we feel better directed policies would be to ensure the highest level of labour mobility around the economy where labour resource can easily shift into sectors with the highest demand. For those females not wanting to work in construction industries, there is therefore the opportunity to fill roles in other parts of the economy, limiting the constraints on non-earthquake related sectors.

We admit that perfectly flexible labour mobility does not exist in practice, with workers often requiring specific training in order to move into specialist roles. However, with the magnitude of the earthquake rebuild set to present such a massive medium-term challenge for the economy, we feel that some allowances will need to be made. Perhaps the Modern Apprenticeship scheme can look to be expanded or used to encompass a greater array of jobs. At present, it is only available for 16-21 year olds and is heavily dominated by males. As of June 2008, only 11% of the scheme's participants were female. An increase in "on-the-job" training for more industries would potentially be a way to counter the delay in getting workers up to speed in new roles.

Women in leadership roles

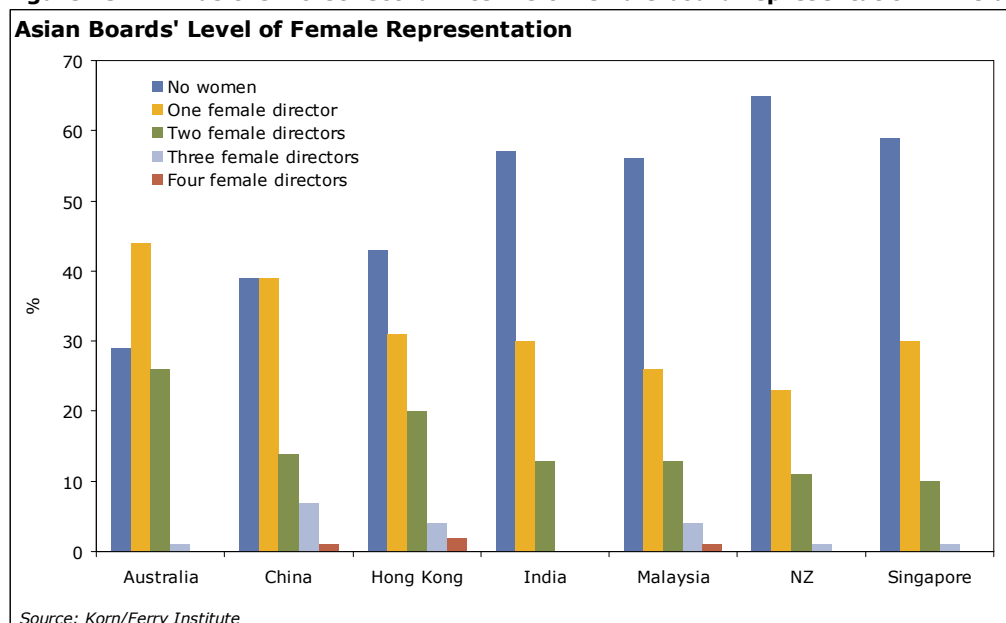
Even a casual observer will have noticed the predominance of males in key leadership roles across many key industries in NZ. This admittedly is not a feature just unique to NZ. But according to the Ministry of Women's Affairs, the number of females at board level of NZSX top 100 companies is only just over 9%. Only 4% of these same companies had a female Chief Executive. NZ falls behind Australia, the UK, the US and a number of European countries on these benchmarks.

Table 2: NZ women only represent a small portion of key leadership roles in the economy

Women in leadership roles in NZ	
Position of leadership	% of women
Governance	
NZSX 100	9.3%
NZDX	9.6%
NZAX	6.8%
Agribusiness Boards	11.8%
State Sector Boards and Committees	41.5%
National Sports Boards	24.0%
District Health Boards	44.1%
Employment	
Chief Executives of NZSX top 100 companies	4.0%
Management positions reporting to Chief Executives of NZSX top 100 companies	21.0%
Editors	11.5%
Accountancy	12.7%
Top Legal Partnerships	18.2%
University Professors and Associate Professors	22.5%
Judges	26.0%
New Zealand Police	29.3%
National Executives - Trade Unions	34.0%
Politics	
Members of Parliament	32.0%
Cabinet	30.0%
Select Committee Chairs	20.0%
Local Government	28.3%
Education	
Teachers	72.0%
School Principals	47.0%
School Boards of Trustees	51.0%

Source: Ministry of Women's Affairs

Compared with other Asia/Pacific countries, NZ's female board representation is poor. A recent study by the Korn/Ferry Institute found that 65% of NZ's top 100 companies by market capitalisation had no women board representation at all. This compares with, say, Australia at just 29%.

Figure 25: NZ has the worst record in terms of female board representation in Asia

These above quoted figures highlight one of the most extreme areas in terms of low female leadership representation. But there are not many other parts of the economy where key leadership positions fully reflect the relative importance of females in the economy. In fact, it is becoming recognised more internationally that in many households, it is the female that has the major influence on key purchasing decisions. In Europe for example, females are reportedly the driving force behind 70% of household purchases.² This in itself suggests that better representation of females at the board and CEO level will better marry up key strategic and policy decisions with what is likely to be at least 50% of the customer base.

There is also a growing international literature that has found meaningful financial outperformance for companies with better female representation at the board level. For example, a Catalyst study of Fortune 500 companies in 2007 found that the top quartile of firms in terms of female board representation outperformed the bottom quartile on a return on equity basis by a considerable 53%. Closer to home, the Reibey Institute found that ASX500 companies with women directors delivered a higher average return on equity than those without women directors of 11% over five years.

We applaud the recent work by some leading women business leaders in NZ to bring this issue to the public's attention. But more should be done at the government level and we wonder whether the possibility of specific minimum targets or quotas of females on boards is something that should be looked at. This should admittedly be a last resort in our eyes, as the growing empirical evidence of company outperformance should in itself encourage more female board representation. Furthermore, we believe a progression of females out of the "traditional" community based sectors (whether naturally or through economic incentives) will also result in a greater increase in the number of women in leadership roles across the economy.

One possibility is to follow the guidelines introduced by the ASX in 2010. Companies are now required to disclose in their annual reports the number of women employees in the organisation, the number in senior management positions, and on the board. This is like an "if-not, why-not" policy when it comes to female leadership at the company level and makes companies accountable themselves.

Reducing the dependency ratio

The dependency ratio is often defined as the ratio of the population not of working age to those that are of working age (15-64 years). It is useful as a gauge to help determine the long-run sustainability of the tax base, the future costs to government of healthcare, education and pensions, and is topical at present given the pressures on the fiscal positions of many countries.

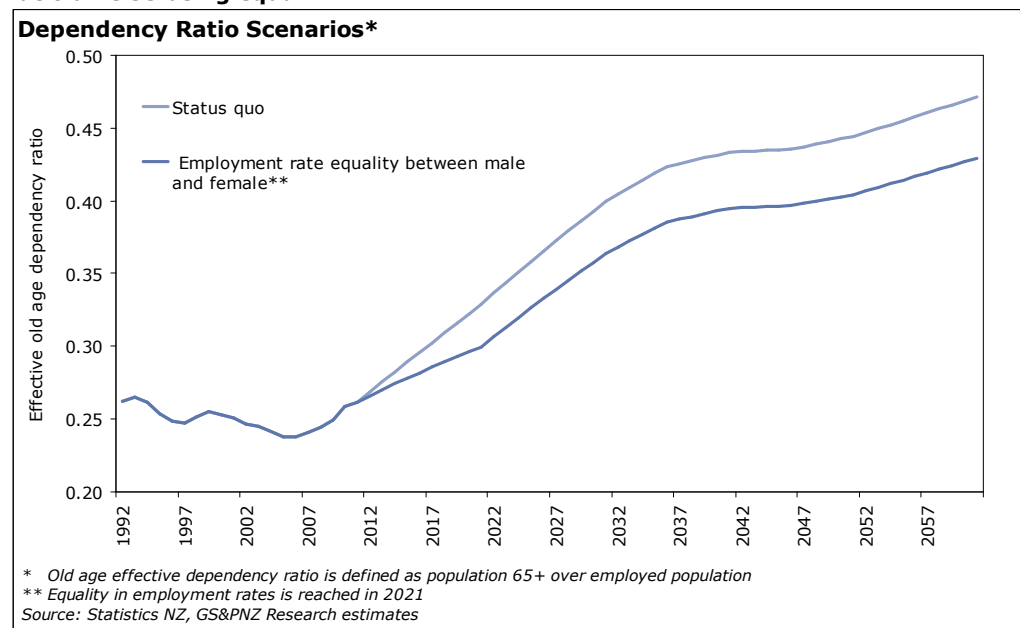
There are a number of other ways to look at the dependency ratio. We prefer to look at it from the point of view of the old-age dependency ratio (or effective old aged dependency ratio) which we define as those aged over 65 years to the number employed in the economy. We feel it gives a better reflection of the potential future issues around pension sustainability.

Without any changes to the current nationwide employment rate (of 64%), the effective old-age dependency ratio is projected to rise to close to 0.5 by 2061 meaning that for every person over 65 years, there are only two employed persons (using Statistics NZ's population projections) to help support them. This is up from a ratio of 1 to 4 currently.

We find though that if the female employment rate increases to be on par with the males by 2021, the dependency ratio is projected to be 5 percentage points lower by 2061. This does not solve the pending issues around the fiscal burden of an ageing population, but it is one factor that could help to lessen its impact.

² See Women Matter: Gender diversity, a corporate performance driver, McKinsey & Company (2007)

Figure 26: A higher female employment rate will lower the old age dependency ratio all else being equal



Some Key Policy Initiatives to Unlock the Potential

Progress has certainly been made in NZ over the past 30 years to improve the gender inequalities present in the labour market. However, our analysis has found that further progress on this front could dramatically boost NZ economic performance. In fact there are already key policies in place that have the intention (at least in part) to help boost female participation and employment rates in the labour market.

Childcare subsidies

While there are a range of childcare subsidies available to low-income families, the most notable change to childcare policies in NZ of recent times was the introduction of the "20 Hours ECE" policy that came into effect in 2007. For children aged 3-5 years in formal childcare, the subsidy (paid directly to the childcare provider) is available for six hours a day, to a maximum of 20 hours per week. The policy is not means tested.

It appears this policy has been very successful. In the year to September 2009, 81% of children in formal childcare were enrolled in the scheme. The median length of time for those who had accessed the subsidy was 18 hours per week, which compares with just 12 hours per week for those in formal care and not accessing the 20 Hours ECE.

In saying this though, the Childcare Survey found that despite this policy, a reasonable number of parents still found it difficult to access childcare, resulting in various degrees of work consequences. More could be done to ease these difficulties and we agree with the recommendations by the Welfare Working Group that perhaps the scheme needs more flexibility, particularly for those parents on welfare. In some cases, 20 hours free ECE may not be enough to make work viable given travel and other commitments, or it may be that the list of eligible ECE providers needs to be broadened to say more after hours care. To pay for any changes, the programme could be means tested.

Working for Families

When Working for Families (WFF) was introduced in the 2004 Budget, Dr Cullen (the Minister of Finance at the time), stated that it had three key aims:

- i. to make work pay by ensuring that people are better off by being in work and are rewarded for their effort;
- ii. to ensure income adequacy, with a focus on low to middle income families with dependent children, to address issues of poverty, especially child poverty; and
- iii. to support people into work by ensuring people get the assistance they should to support them into, and to remain in, work.

It is essentially made up of four separate tax credits replacing other forms of family assistance. The tax credits are: the family tax credit, in-work tax credit, minimum family tax credit and a parental tax credit. They each have various requirements to qualify depending on annual income, the number of dependents, whether the recipient is in paid work or a beneficiary, and whether a family was earning below a minimum income threshold.

In a report to the IRD and Ministry of Social Development in 2010, the Centre for Social Research and Evaluation (CSRE) concluded that WFF "met its objectives without significant disincentive effects".³ Child poverty (using a 60% measure relative to 2004) was found to have fallen by 8 percentage points, while households with income in the lowest 40% say their income increase by 13 to 17%.

However, it is a much more contentious question for whether WFF has "made work pay". The CSRE report found that WFF drew an extra 8,100 sole parents into some form of paid work and more were working over 20 hours per week. But at the same time 9,300 fewer second income earners in couple parent families were in paid work, although total hours worked did not fall.

The major criticism of WFF from an employment point of view is the high effective marginal tax rates (EMTR) faced by some recipients. This is the additional tax paid on every marginal dollar earned. In some cases, these were found to be in excess of 100%, meaning that working additional hours actually comes at a cost in terms of final income in the hand.

In its final report in January 2010, the Tax Working Group found that a family receiving WFF and with income over \$48,000 faced an EMTR of 53% (changes to abatement rates announced in Budget 2011 may have altered this figure). For many second earners (which is often females), EMTRs were found to be 41% or higher, which clearly is a major hurdle for someone thinking of finding additional work to boost their income.

While WFF forms a key component of NZ's welfare system, and it has certainly achieved some of its intentions, we feel the high EMTRs, particularly for second income earners, present a major hurdle for many to return to, or increase their interaction with, the workforce.

Paid parental leave

Around 25,000 families get paid parental leave assistance in NZ each year. Mothers are eligible for parental leave if they have worked for the same employer for an average of at least 10 hours a week, and at least one hour in every week or 40 hours in every month, in the six or 12 months immediately before the baby's expected due date (or adoption date).

If they meet these criteria, they are eligible for paid leave for a maximum of 14 weeks, equal to their normal pay (before tax) up to a current maximum of \$458.82 per week. Often private employers will top up this paid leave if the employee's maximum pay is above this. Employees who meet the 12 month criteria are also eligible for 52 weeks protected unpaid leave.

This policy has recently been subject to some criticism given that it is less generous than the policy now in place in Australia (which came into effect in January 2011). However, from the point of view of encouraging female engagement with the workforce, it should, in theory, encourage more female involvement with the labour force in the year ahead of having a child and also encourage re-entrants to the workforce prior to the birth of subsequent children.

Potential policy initiatives looking forward

From our perspective, key policy initiatives to help close the gender gap should include:

- Introducing incentives for females with high levels of education to seek careers in areas of the economy outside of their "traditional" non-cyclical sectors such as education, health and support services. This may also need to involve education programs in schools that help to reduce the stereotypes of females feeling they are pigeon-holed into these types of roles.
- Looking at ways of closing the gender pay gap further, again particularly for highly educated females, that will therefore incentivise females to enter and remain in the labour force. The recent talk of making employees pay levels available to other colleagues is one way that we feel would start to bring this issue to the fore. However, we do hold some concerns over privacy considerations.

³ CSRE (2010) "Changing Families' Financial Support and Incentives for Working. The summary report of the evaluation of the Working For Families package"

- Ensuring a high level of labour mobility (at both the regional and sectoral levels), which will become more important given the considerable amount of resources that earthquake reconstruction will absorb. We wonder whether there is the possibility to broaden the Modern Apprenticeship scheme or come up with other "on the job training" initiatives.
- Looking at issues that act as impediments for females to enter the labour force such as the availability and cost of childcare and the high effective marginal tax rates for some females on welfare, particularly second-income earners. Encouraging firms, where possible, to introduce flexible work arrangements for staff.
- Looking at what motivates females to work in certain sectors of the economy and whether the qualifications females are attracted to are limiting their future career paths in various industries.
- Analysing the Scandinavian experience to assess where there are any policy synergies that could be adopted in a NZ framework, particularly around the level of childcare support. Any additional cost could possibly be funded out of the introduction of means testing for childcare support.
- Ensuring that further progress is made for increasing women in leadership roles in NZ. An analysis should be completed on whether specific quotas or targets should be introduced or whether NZ follows the approach of the ASX and introduces increased disclosure requirements. Research has not only shown that increased female representation can lead to better decision-making at the board and executive level, but the increased visibility of females in greater positions of power will likely have the flow-on effect of lifting female participation and potentially encouraging females into employment in other sectors, rather than just "traditional" industries.

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