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Unlocking Female Employment Potential in Europe

Drivers and Benefits

*Lone Christiansen, Huidan Lin,
Joana Pereira, Petia Topalova,
and Rima Turk under the
guidance of Petya Koeva Brooks*

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Authors can be reached at LChristiansen@imf.org, HLin@imf.org, JPereira@imf.org, PTopalova@imf.org, RTurk@imf.org.

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Executive Summary

With an aging population and declining productivity growth, Europe faces serious challenges to raising its output growth. Adding to these challenges are the various gender gaps in the labor market. Despite significant progress in recent decades, there are still fewer women than men participating in Europe's labor market, and women are more likely to work part time. Furthermore, a smaller share of women reaches the top rungs of the corporate ladder. Could greater gender equality in the labor market help mitigate the slowdown in Europe's growth potential?

Against this backdrop, this paper investigates the drivers of female labor force participation in Europe as well as what effects greater gender diversity in senior corporate positions might have for Europe's economic performance. Reexamining the factors driving women's labor force participation is particularly important because in many European countries the process of closing the gender gap has stalled despite greater gender equality in human capital investment, declining birth rates, changing social norms, and equal legal access to employment opportunities. Investigating whether firm performance could be improved if women held a greater share of senior positions is also essential given that the empirical evidence from past research into this question has been inconclusive.

This paper finds that, for women in Europe, the decision to work is not simply a matter of personal choice—policies matter, too. For example, the tax policy treatment of a family's second earner could affect incentives to take up work, and public policies providing the kinds of services that make it easier for women to combine a job with household and care responsibilities could also support women's ability to enter or return to the labor market.

This paper finds that having more women in the labor force paves the way for increased diversity in senior corporate positions and better firm performance. The empirical evidence suggests a strong positive association between firms' gender diversity in senior positions and corporate financial performance. This correlation is more pronounced in sectors where women

comprise a larger share of the labor force (such as the services sectors) and where complementarities in skills and thinking—and greater creativity and innovative capacity—are in high demand (such as high-tech and knowledge-intensive sectors). To the extent that higher involvement by women in senior positions improves firm profitability, it may also help support corporate investment and productivity, mitigating the slowdown in Europe's potential growth.

1

Why Is Increasing Female Labor Force Participation Relevant?

Europe's population is aging and productivity growth has declined. Potential output growth in Europe has declined markedly in the aftermath of the global financial crisis (IMF 2015), owing in particular to slower growth in employment and productivity. In addition, the working-age population is expected to continue to shrink over the coming decades, with fewer people entering the labor force and old-age dependency ratios rising. To the extent the recent slowdown in productivity is not fully explained by cyclical factors, concerns about continued subdued productivity growth also linger.

Gender gaps in participation and senior positions are prevalent. Women in Europe remain less active participants in the labor force than men. In 2014, only 89 women were working for every 100 men of prime working age. Furthermore, in many countries, working women supply significantly fewer hours of work on aggregate than men. Gender gaps are even more glaring in senior corporate positions. As of April 2015, for every 100 corporate board members of large publicly listed firms, only 23 are women.¹

Greater involvement of women in the economy can help support Europe's economic performance. Gender equality in the labor market is an important social and developmental goal. In addition, it can bring significant macroeconomic benefits (World Bank 2011; European Commission 2011; Elborgh-Woytek and others 2013; Gonzales and others 2015a), in particular through two channels:

¹ Computed based on European Commission data (http://ec.europa.eu/justice/gender-equality/gender-decision-making/database/business-finance/executives-non-executives/index_en.htm). The corresponding female ratio is 16 out of 100 for top executive positions.

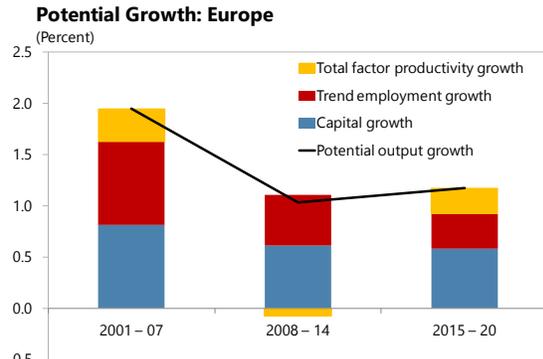
- *Increasing labor supply.* In the context of a rapidly aging population, increasing the share of women in the workforce could help mitigate the impact of a shrinking labor force. Closing the gender participation gap by increasing the number of women in the labor market would raise the European workforce by 6 percent. The impact could be as large as 15 percent if the gap in hours worked by men and women was also eliminated (Figure 1).² In turn, the resulting increase in labor input could have sizable effects on Europe's measured potential output. According to the Organisation for Economic Co-operation and Development (OECD), closing the gender participation gap could raise GDP by 12 percent over the next 15 years (OECD 2012).
- *Improving firm financial performance.* Greater involvement of women in senior management and in the boardroom could help strengthen firms' performance by broadening the talent pool and better representing the changing demographics of the workforce (OECD 2012).³ To the extent that higher representation of women in senior positions improves corporate sector profitability, it would help support corporate investment and productivity, mitigating the slowdown in potential growth.

² This is an illustrative exercise, which assumes that the population and unemployment rate of both genders as well as the male labor force participation rate and number of hours worked for men will remain constant. This exercise also abstracts from the cohort dimension of participation gaps.

³ The goal of bringing greater gender equality at the higher rungs of the career ladder, along with the potential benefits this may bring, has prompted many countries to institute quotas for women on the boards of publicly listed companies. The EU has also called for actively recruiting qualified women to replace outgoing male board members (European Commission 2012).

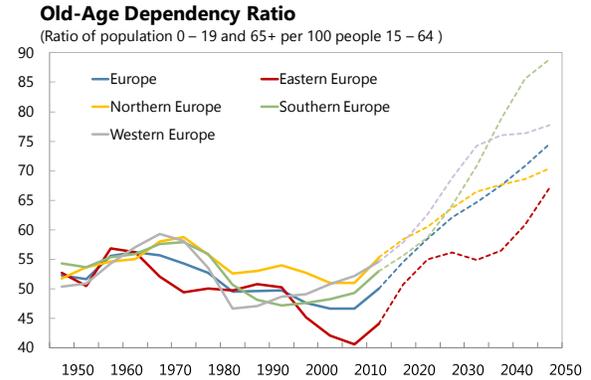
Figure 1. Europe's Economic Challenges

Potential output growth is declining...



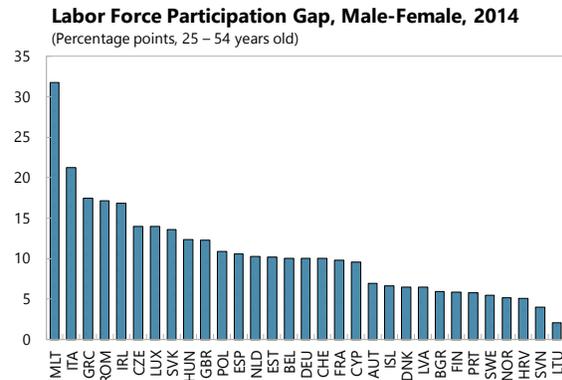
Source: IMF 2015, chapter 3.
Note: Includes Germany, Italy, Spain, Turkey, and the United Kingdom.

...and population is aging.



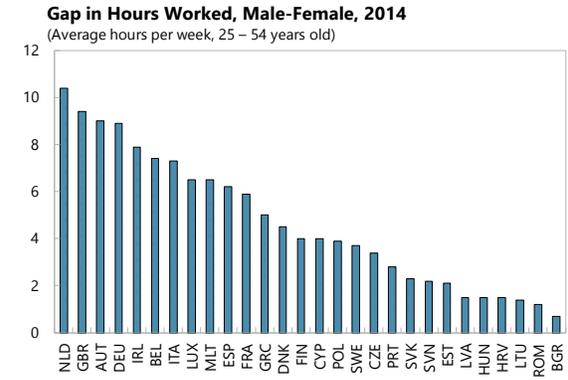
Source: United Nations Population Division.

The gender gap is sizable...



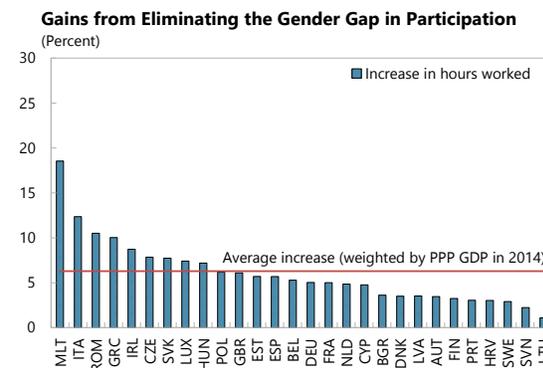
Sources: Eurostat and IMF staff calculations.

...and part-time employment is prevalent.



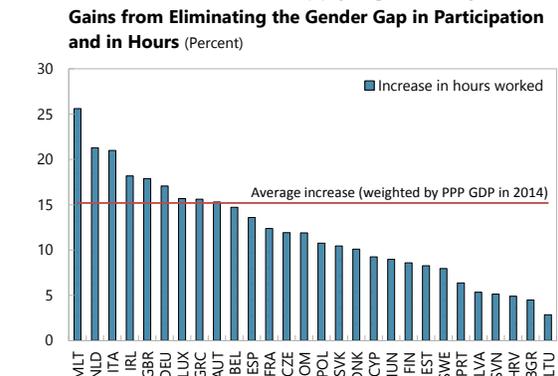
Sources: Eurostat and IMF staff calculations.

Eliminating the gender gap...



Sources: Eurostat and IMF staff calculations.

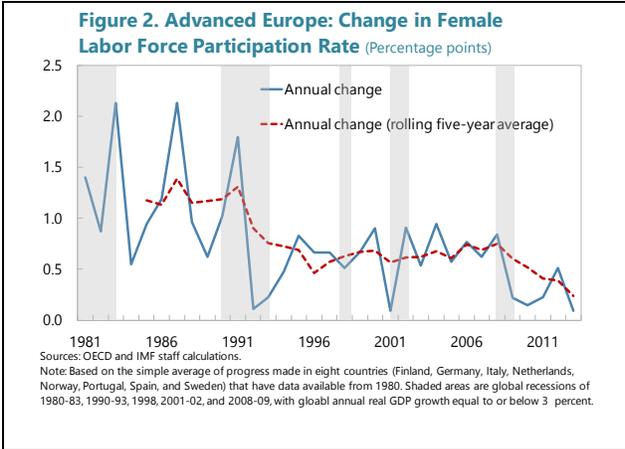
...would increase the labor supply significantly.



Sources: Eurostat and IMF staff calculations.

Note: AUT: Austria; BEL: Belgium; BGR: Bulgaria; CHE: Switzerland; CYP: Cyprus; CZE: Czech Republic; DEU: Germany; DNK: Denmark; EST: Estonia; FIN: Finland; FRA: France; GBR: the United Kingdom; GRC: Greece; HRV: Croatia; HUN: Hungary; IRL: Ireland; ISL: Iceland; ITA: Italy; LTU: Lithuania; LUX: Luxembourg; LVA: Latvia; MLT: Malta; NLD: Netherlands; NOR: Norway; POL: Poland; PRT: Portugal; ROM: Romania; SVK: Slovak Republic; SVN: Slovenia; SWE: Sweden.

Against this backdrop, two questions naturally arise. First, what can be done to boost female employment and close gender gaps in the labor force? Second, are there gains from greater female representation in senior corporate positions? The first question is particularly relevant in light of the slowdown in the rate at which women are joining the labor force in Europe, despite greater gender equality in human capital investment, declining birth rates, changing social norms, and equal legal access to employment opportunities for men and women (Figure 2). With female labor force participation in Europe at its highest level from a historical perspective, could changing policies bring more women into the labor force or do the current levels of participation reflect personal preferences? In regard to the second question of gains from greater female representation in senior corporate positions, numerous studies have examined this question in the context of individual countries, often reaching contradictory conclusions.

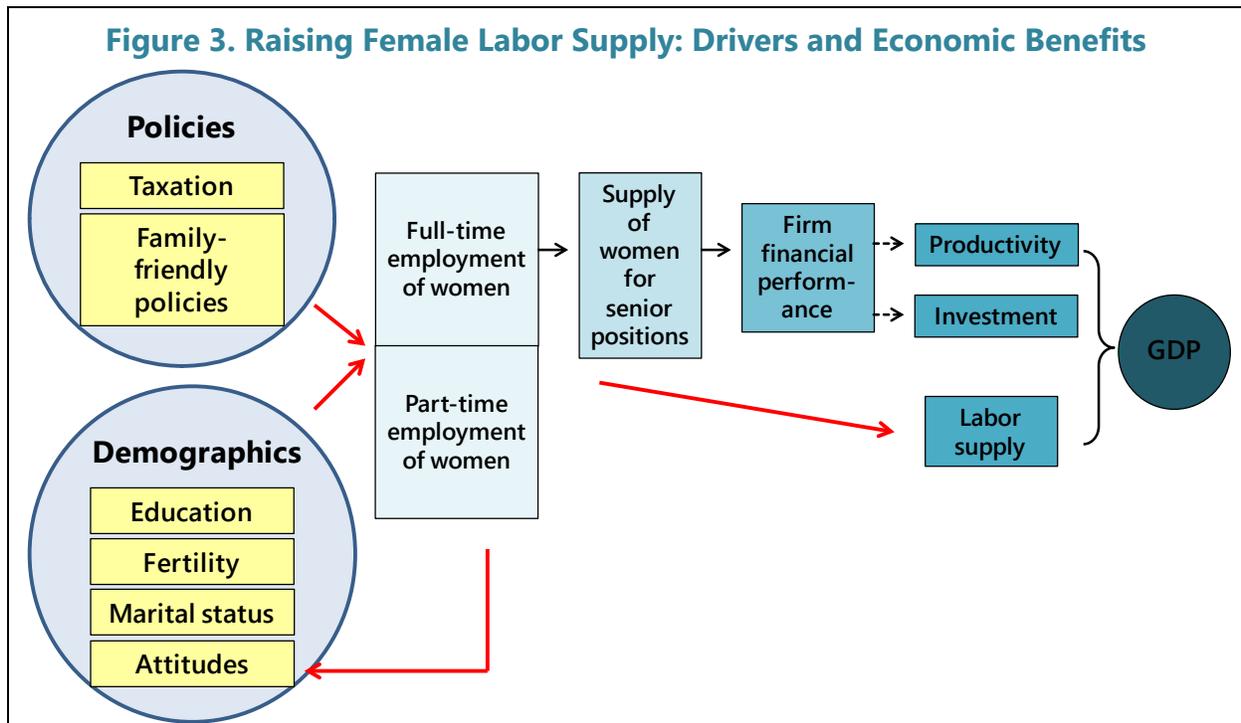


This paper contributes to the debate by addressing each of the two questions.

- *Increasing labor supply.* After taking stock of the evolution of female labor force participation and its key drivers in Europe, the paper revisits the relative importance of various demographic characteristics and policy variables in women’s employment decisions (Figure 3). A key contribution of the analysis is the ability to disentangle the effects on women’s employment decisions arising from individual (or household) choice and macro-level policies.⁴ The analysis highlights the significant role of demographics and attitudes in driving women’s employment decisions. Importantly, it confirms that policies matter as well.
- *Improving firm financial performance.* The paper investigates whether firms benefit from more gender diversity in senior positions. Using data from over 2 million firms in Europe, it provides new empirical evidence on women’s representation in senior positions and firm financial performance. The findings indicate a strong positive association between female

⁴ The paper uses “individual choice” and “personal choice” interchangeably and acknowledges that personal choice may be the result of household decision.

representation and firm performance, particularly in high-tech and knowledge-intensive sectors and in sectors where women represent a large share of the workforce.⁵



⁵ When discussing firm financial performance in this paper, we use “industry” and “sector” interchangeably.