GrOW G2E

Growth and Economic Opportunities for Women
Pathways for Shared Prosperity

POLICY BRIEF

GAPS HAMPER ECONOMIC GROWTH IN EUROPE

Gender gaps in employment have varying levels of economic impact across Europe- Ireland, Italy, and Spain face the largest effects on growth

Overview

Gender inequality in various dimensions of well-being and empowerment in Europe has been largely understood as an issue of equity and justice. For example, discussions on the still substantial gender pay gap, gaps in employment, representation in senior management and boards, or in political representation are primarily framed as equity issues. This is an important perspective given that a person's gender can significantly affect their economic and political opportunities, leading to an inequality of opportunities.

Key Results

- **Gender gaps hamper economic growth.** Adapting existing empirical work to the European context, results show that gender gaps in employment led to substantial growth costs, topping out around 0.8 percentage points per capita per year in Ireland in the 1980s and 1990s, in Spain in the 1970s and 1980s, and in Portugal in the 1970s.
- **Ireland, Spain, and Portugal lost out on nearly 17.3 percentage points in economic growth.** Cumulated over a decade, this amounts to an 8.3 percentage point loss of output – and totals 17.3 percentage points over two decades, all compared to the best performers, which was Finland in the 1970s and 1980s, and Sweden in the 1990s.
- **UK, France, and Germany lost around 4 percentage points per decade.** For the UK, France, and Germany, the cumulative costs are more moderate but still amount to about four percentage points per decade.

The Growth to Empowerment (G2E) program within GrOW examines the impact of economic growth on women's economic empowerment.

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In recent years, however, the potential economic costs stemming from gender gaps have received greater attention. While gender gaps in education have largely disappeared in Europe, gender gaps in employment remain sizable and have received increasing attention. In particular, EU policy initiatives, including the Lisbon Strategy and the 2020 goals, aimed to reduce gender gaps in employment. These initiatives promote enhanced and improved child care options to improve the compatibility of work and family for women. To assess the relevance of these initiatives for economic growth in Europe, we examine the growth costs of these gender gaps in European countries.

Background

In recent years, the potential economic costs stemming from gender gaps have received greater attention. In particular, EU policy initiatives, including the Lisbon Strategy and the 2020 goals, aimed to reduce gender gaps in employment. These initiatives promote enhanced and improved child care options to improve the compatibility of work and family for women. Interestingly, in academic policy circles concerned with developing countries, such debates on the efficiency costs of gender inequality had started earlier. In those conversations, the focus was initially mostly on gender gaps in education, which tended to be much larger in developing countries than in Europe, but then later moved to gender gaps in employment. This study briefly reviews the existing theoretical and empirical literature on the impact of growth on gender gaps and assess its relevance for the European situation.

Methods and Data

We conduct a literature review of the most important theoretical mechanisms linking gender gaps to growth. The key arguments include:

- Gender gaps reduce the size of the workforce and potential labor hours
- Reducing gender gaps in education decreases fertility and the working age population will thus grow faster than the dependent population. It also increases the talent pool for employers.
- In East Asia, female-intensive export-oriented manufacturing industries have resulted from a reduction in gender gaps.
- Reducing gender gaps increases women's bargaining power at home, and studies have found that women strengthen the economy because they have higher credit repayment rates, save more, and make larger investments in their children's health and education.

We then calculate the growth costs of gender gaps in employment for European countries based on data on aggregate data and methods used in one of those empirical studies (Klasen and Lamanna, 2009). More specifically, we take the results of this cross-country analysis and calculate the growth cost of gender gaps by using the estimation results combined with information on gender gaps in employment.

Main Results

- **There are large differences in gender gaps across countries in Europe.** Figure 1 shows the female-male ratio of participation rates in selected EU economies. To note are the large differences and variation in participation ratios in 1970 ranging from less than 0.3 in Portugal to a high of 0.7 in Finland, the top performer at the time. What is also interesting is the pace of change, which again differs dramatically. Although the ratios are increasing in all countries listed, they do so at a very slow pace in Germany, Ireland, and Finland, while they increase much faster in Portugal, Sweden, and Spain, while the remaining countries (France, UK, and Italy) witness a relatively modest pace of improvements.
- **Ireland, Spain, and Portugal have experienced largest economic impact from gender gaps.** One can combine these levels and trends with the regression results on the growth impacts reported in Klasen and Lamanna[1]. The results are reported in Figure 2 for the same sample of EU countries. The growth costs are annual per capita growth costs of the country relative to the best performer in the ratio of female-male participation rates for that decade, which is Finland for the 1970s and 1980s, and Sweden for the 1990s. The results show substantial growth costs, around 0.8% per capita per year in Ireland in the 1980s and 1990s, Spain in the 1970s and 1980s, and Portugal in the 1970s. Cumulated over a decade, this amount to 8.3% output loss, and 17.3% over two decades, which is similar to estimates produced in another recent study by Teignier and Cuberes[2]. For the UK, France, and Germany, the cumulative costs are more moderate, but still amount to about 4% per decade.
- **One has to treat these estimates with some caution.** They are based on a number of assumptions about the correctness of the particular statistical model estimated and the homogeneity of parameters across countries and over time. Thus they should be seen as rough estimates than precise forecasts. But as such they suggest that the growth costs of gender inequality are non negligible in Europe.

Figure 1. Female-male participation ratios for ages 15-64 (years 1970, 1980, 1990)

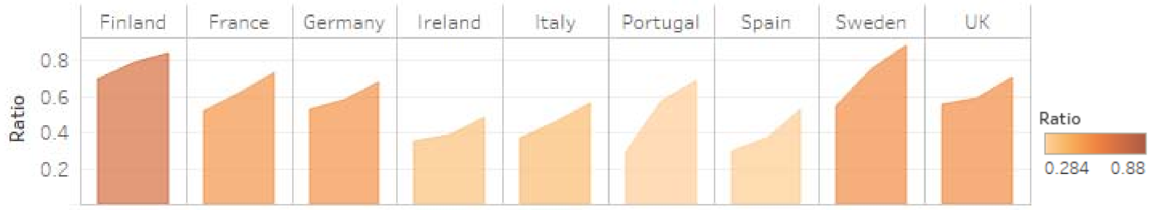
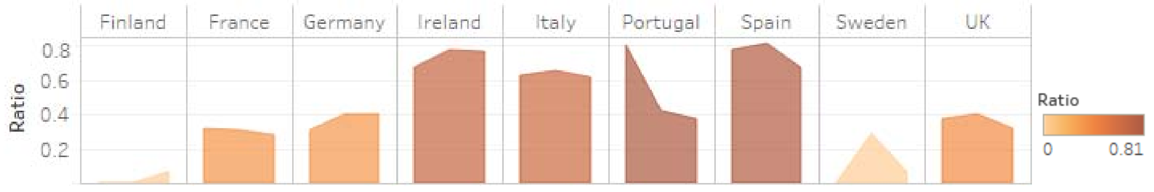


Figure 2. Annual growth costs of gender participation gaps (years 1970, 1980, 1990)



[1] Cuberes, D. & Teignier, M. (2016). Aggregate effects of gender gaps in the labor market: A quantitative estimate. *Journal of Human Capital*, 10(1), 1-32.
[2] Klasen, S. & Lamanna, F. (2009). The impact of gender inequality in education and employment on economic growth: new evidence for a panel of countries. *Feminist Economics*, 15(3), 91-132.

Policy Lessons

- A number of mechanisms suggest that gender inequality in education and employment leads to lower economic growth in Europe. The effects are sizable and meaningful.
- One critical determinant of female labor force participation is the ability to combine work with family duties which still fall predominantly on women. Family policies can have a significant effect, such as on the ability of women to work full-time or part-time.
- The high marginal taxation of secondary earners as practiced in several EU countries discourages female participation, as well as the unequal distribution of household and care burdens within families.

Further Reading

Klasen, S. & Minasyan, A. Gender Inequality and Growth in Europe, *Intereconomics: Review of European Economic Policy* (2017) 52: 17.
http://www.journals.uchicago.edu/doi/abs/10.1086/683847

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The **GrOW initiative** funds 14 research projects aimed to empower women to participate in economic activities, providing evidence that can inform social and economic policies to improve poor women's lives, while promoting economic growth.

Research Project – G2E (Growth to Empowerment) is a project of the GrOW initiative: Pathways for shared prosperity: Understanding the links between women's economic empowerment and growth.

Information
https://www.uni-goettingen.de/en/532926.html

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