

Presentation to Chief Executive Women (Victoria) Annual dinner

Danielle Wood, Program Director Budget Policy and Institutional Reform, Grattan Institute

18 October 2018

Thank you for invite to be here tonight.

I'm know I'm mostly preaching to the converted in this room when I say that we should support gender equality because it's the fair thing to do and the right thing to do. But as an economist – and I'm sure all of you as business leaders would agree – I also want to be guided by the evidence. The policy and business case for gender equality is strong. And better, we have increasingly good evidence about what we can do to achieve it.

First, let me outline the policy case for boosting female workforce participation. Despite what politicians tell us, there's not many policy levers government can pull that will deliver a substantial boost to the economy. After looking through the normal wish lists, Grattan Institute found that increasing female workforce participation was one of the three. The others? Boosting workforce participation for older Australians and delivering substantive tax reform.¹

Australian female workforce participation is low by international standards, particularly for full time work. There are many more women working two or three days a week in Australia compared to other developed countries.²

Partly this is cultural, but partly it is the interaction of our tax, welfare and childcare systems. Income traps have long been a feature of the system for low and middle-income women. Some women face effective tax rates of 80, 90 or more than 100% for moving from two-to-three, or three-to-four days work, once the costs of childcare are factored in.³ Is it any wonder that many decide that working for free isn't a particularly desirable proposition?

Under the new childcare funding system, similar disincentives have been created higher up the income distribution. The government subsidy for childcare costs falls below 50% on household incomes above \$250,000 and cuts out entirely on household incomes above \$350,000. These are of course high household incomes, but if we look through the lens of a woman - and it is still normally a woman – deciding whether to work and how much, the decision to return to full time work at \$100,000 or even \$150,000 a year

¹ Daley, J., McGannon, C. and Ginnivan, L. (2012), *Game changers: Economic Reform Priorities for Australia*, Grattan Institute, <https://grattan.edu.au/report/game-changers-economic-reform-priorities-for-australia/>

² Cassidy, N. and Parsons, S. (2017), *The Rising Share of Part-Time Employment*, RBA Bulletin, <https://www.rba.gov.au/publications/bulletin/2017/sep/3.html>

³ Stewart, M (2018), *Mothers have little to show for extra days of work under new tax change*, *The Conversation*, <https://theconversation.com/mothers-have-little-to-show-for-extra-days-of-work-under-new-tax-changes-98467>

is a much less desirable proposition if you now bear the full brunt of childcare costs that can be in excess of \$40,000 a year.

Of course we would all encourage this woman to keep working with an eye to her future career prospects. But who wants to be the one to tell our sleep-deprived new mum that she should return to a stressful full-time job for take home pay after tax and childcare costs of just over \$30,000 a year?

When Grattan looked at this issue back in 2012 we found that if Australia could boost female workforce participation to the level of Canada – a comparable country which at the time had six per cent more women in the workforce – Australia’s GDP would be \$25 billion higher.⁴ In terms of economic payoff, that’s 2-3 times the boost to national incomes of the government’s shelved company tax cuts.⁵

If untapped female workforce participation was a massive coal deposit, we would have governments lining up to give tax concessions to get it out of the ground. Ministers would be at pains to explain how exploiting these resources is incredibly important for the nation’s “jobs and growth”. But for some reason women’s workforce participation receives far less policy prominence.

We are seeing some improvements – particularly in female workforce participation amongst university graduates. Workforce participation rates have increased by nearly 10 percentage points among graduates aged 25-34, and 5 percentage points among graduates aged 35-44 over a decade.⁶ But we still lag our Canadian friends, so there is still plenty of room to do better.

But driving further change isn’t just in the hands of government – it requires broader cultural change. This needs to happen on two fronts: at work and at home.

Flexible work continues to rate as the most important determinant of a woman’s successful return to the workplace. But we don’t want to risk flexible work becoming a women’s ghetto. The Minister for Jobs who is also the Minister for Women, Kelly O’Dwyer, says that when she visits companies they will often tell her about their flexible work policies. She responds by asking how many men have taken up the option for flexible work. There’s often a period of silence before someone says something like “I think Bill from marketing is using it to play more golf”.

⁴ Daley, J., McGannon, C. and Ginnivan, L. (2012), *Game changers: Economic Reform Priorities for Australia*, Grattan Institute, <https://grattan.edu.au/report/game-changers-economic-reform-priorities-for-australia/>

⁵ A 5 percentage point cut in the company tax rate funded by an increase in personal income tax rates is estimated to increase Gross National Income in the long run by 0.5-to-0.6 per cent (\$8 billion-to-\$10 billion in today’s dollars). See <https://grattan.edu.au/wp-content/uploads/2018/04/Submission-to-Company-tax-cuts-13-April-2018-Grattan-Institute.pdf> pp. 6-8 for a review of the modelling.

⁶ Norton, A., Cherastidham, I., and Mackey, W. (2018). Mapping Australian higher education 2018. Grattan Institute, <https://grattan.edu.au/wp-content/uploads/2018/09/907-Mapping-Australian-higher-education-2018.pdf>

Real flexibility means men feeling comfortable to ask and knowing they will receive the same treatment as a woman asking to use these policies. Research suggests that while men are increasingly taking up flexible work,⁷ they are still more likely to have their request for flexible work denied.⁸ The reality of truly flexible work for all has some way to go before it catches up with the lip service.

Boosting female workforce participation also means addressing the gender pay gap. That new mum we want to get back to her \$100,000 a year job is likely to be earning less than her male colleague for the same work. And she can look forward to that gap widening as she moves into more senior roles. The average female executive earns \$39,000 less in base salary than the average male executive – and the gap increases to almost \$74,000 if we take into account bonuses and other discretionary pay.⁹

But the good news is that the pay gap is narrowing (albeit slowly). Why? One reason is that we are accumulating better evidence about how to address it.¹⁰

The Workplace Gender Equality Agency reports that the share of employers undertaking a pay gap analysis increased from just under a quarter to almost 40 per cent between 2014 and 2017.¹¹ And about half of organisations that conducted a pay gap analysis took some action in light of the results. Actions to correct gender pay gaps are three times more effective when combined with reporting to the Executive or Board. Organisations that took these steps reduced their pay gap by around 3 percentage points in one year.¹² And companies like Energy Australia have sped-up the process and eliminated the pay gap for like-for-like work in just a year, with around 350 female staff receiving a one-off adjustment to their pay worth around of \$3500 on average.

But is it just a coincidence that this action was taken by Energy Australia, a company led by a female managing director and with five of the ten board positions occupied by women? Research by the Bankwest Curtin Economics Centre for the Women's Gender Equality Agency found a pronounced and statistically significant relationship between

⁷ ABS (2018), *Childhood Education and Care, Australia*, June 2017, cat. no. 4402.0.

⁸ Workplace Gender Equality Agency (2013), *Engaging men in flexible work arrangements*, https://www.wgea.gov.au/sites/default/files/20130829_PP_engaging_men_flex_work_2.pdf

⁹ BankWest Curtin Economics Centre (2018) *Gender Equity Insights 2018, Inside Australia's Gender Pay Gap*, http://bcec.edu.au/assets/BCEC-WGEA-Gender-Equity-Insights-2018-Report_WEB.pdf, p. 15.

¹⁰ Other contributing factors are cyclical – in a downturn the gender pay gap narrows as men's wages have greater exposure to the business cycle – and structural – female dominated sectors/occupations have dominated recent jobs growth. Cassells, R. (2017), *It's too soon to celebrate a narrowing gender wage gap*, The Conversation <https://theconversation.com/its-too-soon-to-celebrate-a-narrowing-gender-wage-gap-87669>.

¹¹ The proportion of employers conducting a pay gap analysis increased from, 24 per cent in 2014 to 38 per cent in 2017. BankWest Curtin Economics Centre (2018) *Gender Equity Insights 2018, Inside Australia's Gender Pay Gap*, http://bcec.edu.au/assets/BCEC-WGEA-Gender-Equity-Insights-2018-Report_WEB.pdf, p.31.

¹² Reviewing performance pay processes to ensure no gender bias, combined with reporting of pay gaps to Executives and Boards, was found to reduce overall gender pay gaps by an average of 2.8 percentage points in total remuneration. Correcting like-for-like gender pay gaps, combined with reporting to Executives and Boards, was found to reduce organization wide gender pay gaps by an average of 1.3 percentage points in base salaries, and 3.3 percentage points in total remuneration, compared with no pay audit or action. *Ibid*, p.49.

the number of women on boards and the number of women in senior leadership positions in narrowing the gender pay gap.¹³

All of this plays well for feel-good corporate marketing, but is it good for business? While the literature on the effects of diversity on corporate performance is mixed,¹⁴ many papers across countries and industries have found positive returns. In a study of listed and non-listed companies in Europe, economists at the International Monetary Fund found that replacing one man on a board or senior management team with a woman increased return on assets by an average of 8–13 basis points. This ‘female dividend’ was stronger in sectors employing more women and in knowledge-intensive and high-technology sectors — which demand higher creativity and critical thinking.

Other studies have shown that increased female representation reduces the likelihood of fraud and increases social responsiveness.¹⁵ But I suspect the biggest dividend, and one that’s perhaps harder to measure in studies of short-term payback, is the impact in attracting and retaining skilled women as well as encouraging those women to aim high – the role model effect.

But for true equality there’s another gap we need to close. The burden of unpaid care – childcare, housework and care of the elderly – still overwhelmingly falls on women. And time-use studies show us exactly when this chasm opens: when the first child is born. Before the arrival of a child, couples share work relatively equally. Men spend slightly more time on employment and women spend only slightly more time on housework, but the gaps are small.¹⁶

But the first child establishes a more traditional arrangement. In the year following the birth of a child, the woman’s employment share drops to an average of 14 per cent of the couple’s total employment time, but she does 64 per cent of the housework and 72 per cent of care. And once these more traditional gender roles are established, they are difficult to budge. Ten years after the birth of the first child, the woman’s share of the couple’s employment time is only back to 30 per cent, while she is still doing 63 per cent of the housework and 66 per cent of care.¹⁷

¹³ . BankWest Curtin Economics Centre (2016) *Gender Equity Insights 2016, Inside Australia’s Gender Pay Gap* <http://bcec.edu.au/assets/084525-BCEC-WGEA-Gender-Pay-Equity-Insights-2016-Report-MR-LINKED.pdf>, pp.49-53.

¹⁴ For a summary see Christiansen, L. *et.al* (2016), *Gender Diversity in Senior Positions and Firm Performance: Evidence from Europe*, IMF Working Paper WP 16/50, <https://www.imf.org/external/pubs/ft/wp/2016/wp1650.pdf>, p.7. See also BankWest Curtin Economics Centre (2016) *Gender Equity Insights 2016, Inside Australia’s Gender Pay Gap* <http://bcec.edu.au/assets/084525-BCEC-WGEA-Gender-Pay-Equity-Insights-2016-Report-MR-LINKED.pdf>, p.46.

¹⁵ *Ibid*, p.46.

¹⁶ Lass, I. (2018) *Who is Doing What on the Homefront?*, Pursuit <https://pursuit.unimelb.edu.au/articles/who-is-doing-what-on-the-homefront>

¹⁷ *Ibid*.

The financial effects of this are very clear: the average man aged 25 today who does not have children will earn \$2 million over his lifetime, the average 25 year old man who becomes a father, \$2.5million. The average 25 year old woman who remains childfree will have lifetime earnings of \$1.9 million but if she does have children this falls to \$1.3 million – just over 50% of the earnings of the average father.¹⁸

But is this just what women want? Not really. Women's satisfaction with the division of labour in the household drops markedly after the birth of the first child and continues to decline until the child is five years old. Men remain highly satisfied with the distribution of labour throughout this time.¹⁹ And Scandinavia – as always – shows us how things might be different. Those countries with policies to promote fathers to do more 'fathering' in the early years – end up with much more equal distribution of household labour and pay across genders over the lifetime.²⁰

Everyone is here this evening because we care about gender equality. And it's clear that there are a number of fronts where we should fight for progress: the government needs to look seriously at the disincentives to work created by the interaction of the tax, welfare and childcare systems. Parental leave policies should do more to encourage fathers to take on the role of primary carer in the crucial first year when lifetime caring patterns are established. Business needs to find ways to support flexible work for men and to embrace the very clear evidence on pay reporting to close the gender pay gap. And we should all look to our home division of labour – because the amount of time we spend washing dishes or doing school runs might be the key to unlocking Australia's great untapped resource: women's workforce participation.

¹⁸ AMP (2009) *She Works Hard for the Money*, https://melbourneinstitute.unimelb.edu.au/assets/documents/hilda-bibliography/other-publications/pre2010/AMP_NATSEM_works_hard_for_the_money.pdf, p.32

¹⁹ Lass, I. (2018) *Who is Doing What on the Homefront?*, Pursuit <https://pursuit.unimelb.edu.au/articles/who-is-doing-what-on-the-homefront>

²⁰ The Economist (2017), *The Gender Pay Gap*, <https://www.economist.com/international/2017/10/07/the-gender-pay-gap>