FINANCIAL INCLUSION, WOMEN AND THE ECONOMY

Address to Good Shepherd Microfinance's 'Resilient Women' Summit

Ernst & Young Australia Head Office, George Street, Sydney

by

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25th November 2016

It's a pleasure and an honour for me to have been invited to participate in this important and exciting event. It's also something of a personal challenge, to impart to an audience as successful, engaged and motivated as all of you here today are, some insights or perspectives that you don't already have, which you can put to some useful purpose after you leave here later today.

The organizers of this summit have entitled this segment "It's a Women's Economy".

I hope neither they, nor you, will take any offence if I begin by saying, "It isn't". At least, not yet.

You don't need me to tell you that there is still a big 'gender gap' – in pay, in opportunity, in status, and in wealth – to name just a few areas. Or that – as Hillary Clinton observed earlier this month – there are still some glass ceilings that remain to be shattered. Women in full-time employment earn about $27,000 per annum, or almost 23% less, than men[1]. Despite making up more than 46% of the work force, women represent only 37.4% of managers, and just 16.3% of CEOs. Women approaching retirement age have, on average, less than half the amount of superannuation savings that men do[2].

Australia is by no means unique in this regard. As one of the world's most influential women, the IMF's Managing Director Christine Lagarde, put it in a speech in Los Angeles earlier this month, "across the globe, women are still facing a triple disadvantage – they are less likely than men to have a paid job; if they do find a job, it is more likely to be in the informal sector; and if they eventually get a job in the formal sector, they earn, on average, three-quarters as much as men."[3]

What I personally found both surprising and confronting in preparing for this talk this morning is how poorly Australia has been performing in this area, relative to other countries.

Let me give you two comparisons.

Australia's ranking on the United Nations' Gender Inequality Index has slipped from 12th in 2000 to 19th in 2014, the latest year available[4]. Our absolute score on this index has gone up over this period, but by less than in seven other countries.

Despite doing better than one might expect on some components of the index, such as the share of seats in Parliament held by women, Australia's ranking is adversely affected by a relatively high (for a high-income country) adolescent birth rate, and a relatively large gap (again, as compared with other high-income countries) between the labour force participation rates of women and men.

The World Economic Forum's 2016 *Global Gender Gap Report*[5], published at the end of last month, ranks Australia 46th out of 144 countries, in between the US (at

[1] Australian Workplace Gender Equality Agency, Australia's latest gender equality scorecard released today, 16th November 2016.
[2] Australian Securities and Investments Commission, Superannuation and Women, April 2016.
[3] Christine Lagarde, *Women's Economic Empowerment: An Economic Game-Changer*, Los Angeles, 14th November 2016.
[4] United Nations Development Programme, *Human Development Report 2015, Gender Inequality Index*.

45th) and Panama (at 46th) – well behind, among others, New Zealand, which is ranked 9th – and down from 15th out of 115 in 2006.

Australia ranks equal 1st, along with 17 other (mostly) rich countries for educational attainment, which measures outcomes for females relative to males on literacy and enrolment rates at each of the three principal levels of education.

We rank 72nd on what the World Economic Forum calls 'Health and Survival', although that's largely because there is a fairly small gap in life expectancy between women and men in Australia, as compared with many developing countries where both women and men have much shorter life expectancies than in Australia, but where the gap between women and men on this score is much larger. Somewhat perversely (in my view), a large gap here is 'rewarded' with a higher ranking on this score.

More disconcertingly, Australia ranks only 42nd on 'Economic participation and opportunity', largely because of our relatively poor scores on female-to-male ratios of labour force participation, wages for similar work, earned income and representation among legislators, senior officials and managers. And we rank 61st on 'Political empowerment', on account of our low scores for women in parliament and women in ministerial positions.

Now I 'get' that in this new 'post-truth world' of Brexit and Donald Trump, we are all supposed to regard material emanating from organizations like the United Nations and the World Economic Forum – the home of 'Davos Man' (and 'Woman') – as representing the view of the 'elites' whom it is now *de rigueur* to despise.

However I for one am determined to hold to the position that, while people are entitled to their own opinions, they're not entitled to their own facts.

There is of course a compelling moral case for eliminating gender inequality, one which women, and some men, have been advancing for a very long time. I support that case, but it's self-evidently not a case that has been widely won on its own merit.

That's why I think it is also worth advancing what Christine Lagarde calls 'the business case for women's empowerment'[6], which has three dimensions:

- first, women's empowerment can boost growth and reduce income inequality;
- second, women's empowerment can help mitigate the adverse economic consequences of demographic change; and
- third, greater female economic participation supports diversification, which in turn reduces risk and improves resilience in the face of economic shocks.

There is Australian evidence to support all three of these propositions.

For example, almost exactly seven years ago Goldman Sachs' Australian economics team estimated that eliminating the gap between female and male employment

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[5] The World Economic Forum, *The Global Gender Gap Report 2016*, 28th October 2016.
[6] Christine Lagarde, *The Business Case for Women's Empowerment*, Speech to APEC CEO Summit, Lima, Peru, 18th November 2016.

rates would boost Australia's GDP by 11%[7]. The Grattan Institute, in a report published in 2012, calculated that removing disincentives for women to enter the paid workforce (such as high effective marginal tax rates arising from the interactions between the income tax scales and the withdrawal of family tax benefits and child care rebates) would provide a $25bn per annum boost to the Australian economy[8].

Since 2009 the female employment rate has increased by just 0.1 of a percentage point, from 55.6% to 55.7% - while the male employment rate has declined by 1.6 pc points, from 68.2% to 66.6%. I suppose one could say that the participation gap has narrowed, but not in the way that most people would have hoped – although it also has to be acknowledged that population ageing is partly responsible for both the decline in male workforce participation and the apparent cessation over the past seven years of what had been a long-term upward trend in female workforce participation.

Nonetheless, the fact remains that if the employment rate of women could be lifted to that of men, there would be a substantial positive impact on economic activity.

And, since a larger share of low-income households in Australia are headed by women not in employment than by men in similar circumstances, it also follows that raising the employment rate of women to that of men would make a material contribution to reducing inequality more generally.

The Goldman Sachs report I mentioned a moment ago also highlighted the fact that, although Australian women are now, on average, more highly educated than Australian men, female employment is nonetheless disproportionately concentrated in industries where measured labour productivity is relatively low – such as retail trade or health care and social assistance – as opposed to industries where measured labour productivity is relatively high, such as mining or financial services, but where women are very much under-represented.

This is of course one of the reasons for the gender pay gap – although far from the only one – and it underscores the importance of not only seeking to lift women's employment rates, but also removing barriers which still exist to their entry into higher-paying sectors and occupations.

The IMF has also published research earlier this year suggesting that economies characterized by high levels of gender inequality tend to be less diversified – that is, dominated, particularly when it comes to trade, by a relatively narrow range of activities, and hence more vulnerable to economic shocks – than economies with lower levels of gender inequality[9].

These findings apply primarily to low-income and developing economies. Nonetheless, they 'gel' with other research from 'advanced' economies pointing to

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[7] Tim Toohey, David Colosimo and Andrew Boak, *Australia's Hidden Resource: The Economic Case for Increasing Female Participation*, Goldman Sachs JB Were Research, 26th November 2009.

[8] John Daley, *Game Changers: Economic reform priorities for Australia*, Grattan Institute, June 2012, pp. 32-49.

[9] Romina Kazandjian, Lisa Kolovich, Kalpana Kochhar, and Monique Newiak, *Gender Inequality and Economic Diversification*, IMF Working Paper No. 16/140, 14th July 2016.

strong links between gender diversity and measures of economic or business performance.

For example, a study conducted by La Trobe University's Business School published earlier this year found a "positive and significant association between female non-executives on boards and firm financial performance"[10].

Credit Suisse's *Gender 3000: The Reward for Change* report, released in September this year, suggested gender diversity in senior management was more important for business performance than gender diversity on boards – companies with more than 50% of their management roles occupied by women recording a 10.3% increase in their share price between end-2013 and mid-2016, compared with 4.8% for companies with women in one-third of their management roles and only 2.8% for companies with women in one-quarter of their management roles.

Unfortunately the same study found that the proportion of women in senior management roles at ASX-listed companies had fallen from 18.9% in 2014 to 17.1% this year[11].

Credit Suisse's findings echo those of an earlier study by McKinsey, which showed that "companies with a higher proportion of women on their management committees are also the companies that have the best performance" – although, interestingly, this McKinsey study also suggested that "performance increases significantly only once a certain critical mass is attained: namely, at least three women on management committees for an average membership of 10 people – below this threshold, no significant difference in company performance is observed"[12].

The 'business case' for advancing the economic status of women doesn't carry greater force than the moral case: it merely complements and supports it, not least by resonating with people with whom the moral case may never carry much weight.

In my view, women are no less likely to achieve economic power commensurate with their share of the world's population than, say, China is. The only real questions are around what path is taken to get there, and how long it takes to get there.

For although there is no doubt that there remain substantial 'gender gaps' in almost every dimension of economic and financial participation and status, there is also no doubt that these things are changing – too slowly for many, to be sure, but also, as recent election outcomes suggest, uncomfortably rapidly for some.

I believe it's important for women to build financial resilience. The reasons for that were well spelled out by the new Governor of the Reserve Bank, Phil Lowe, in a speech he gave in Melbourne last week, which was actually about the Australian economy but nonetheless has, I think, a real relevance to what we are discussing here today.

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[10] Paul Mather, More women on board, more profits, La Trobe University, March 2016.
[11] 'Credit Suisse report shows companies run by women fare best', *The Australian*, 27th September 2016.
[12] McKinsey & Company, Women Matter: Gender diversity, a corporate performance driver, 2007, pp. 12-14.

I'm excerpting from Dr Lowe's speech, and inserting a couple of words in square brackets in order to make the context clear:

> "One element of [the challenge of] securing prosperity is … managing risk and ensuring resilience.
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> … Important to [Australia's] prosperity is the fact that over the past quarter of a century, our economy has not been seriously derailed by economic shocks. After all, nothing undermines prosperity like a severe recession in which large numbers of people lose their jobs and see their wealth decline.
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> … We have been able to ride out these and other shocks without too much difficulty … [partly] because when the shocks hit we have had buffers to absorb them. Because of these buffers, we had options that not all other countries have had.
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> … One area where it is particularly important to have adequate buffers is in the financial sector. The financial sector can either act as a cushion for adverse shocks or it can act as an amplifier.
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> … [Another] set of buffers are those in household balance sheets. These buffers too are important as they influence how households respond to difficult economic times. Ideally, in such times, people are able to draw on their savings a bit, and perhaps even access credit, so that they don't have to cut their consumption sharply. Of course they can do this only if their balance sheets are in reasonable shape"[13].

The Australian economy will be stronger, if women have access to the same range of 'buffers and options' as men. The Australian financial system has a crucial role to play in making that possible.

Every journey has its own distinct milestones, and I want to conclude by drawing attention to one that has resonance for me as an economist. This Wednesday, the Reserve Bank announced the appointment of Luci Ellis as its new Assistant Governor (Economic).

This position, in effect the Reserve Bank's chief economist, was once held by Phil Lowe, who is now the Governor of the Reserve Bank. It was previously held by Glenn Stevens and, before him, Ian Macfarlane, Phil Lowe's predecessors as Governor of the Reserve Bank. Luci is a brilliant economist, and a particularly gifted communicator – a skill which is perhaps not as common among central bankers as it should be. She's now the first woman to make it to the 'third tier' of the Reserve Bank's pyramid. If history is any guide – and when it comes to Reserve Bank appointments it usually is – Luci may one day be the first woman to have her signature on all new Australian banknotes.

Given the importance of the financial system to the Australian economy, that would indeed represent a significant accomplishment.

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[13] Phil Lowe, 'Buffers and Options', Address to the Committee for Economic Development of Australia (CEDA) Annual Dinner, Melbourne, 15th November.