The Key to Unlocking U.S. GDP Growth? Women

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Angel Gurria, secretary-general of the Organization for Economic Cooperation and Development (OECD), once said women are "the most underutilized economic asset in the world."

This holds especially true in the U.S., the only country in the OECD that doesn't provide income support during maternity or parental leave by law, and where the percentage of women in the labor force lags most other OECD members after being near the top just a few short decades ago. American women have an undeniably harder time climbing the corporate ladder (for reasons other than their talent and dedication) than their male counterparts do, and are often penalized for taking time off to deal with family issues. Moreover, many have long been steered toward careers and fields of study that are seen as "women's work."

Given the ongoing debate in Washington about the need for stimulative economic policy—specifically tax reform that promises to promote corporate investment, job gains, and an increase in Americans' disposable income—the issue could hardly be more topical.

S&P Global believes that a dual-pronged effort of increasing entry and retention of more women to the American workforce, particularly those professions traditionally filled by men, represents a substantial opportunity for growth of the world's principal economy, with the potential to add 5%-10% to nominal GDP in just a few decades. If women entered, and stayed, in the workforce at a pace in line with, say, Norway, the U.S. economy would be $1.6 trillion larger than it is today, according to a scenario analysis conducted by S&P Global economists. These results suggest an incredible opportunity for responsible growth, one built on a foundation of inclusivity.

Overview

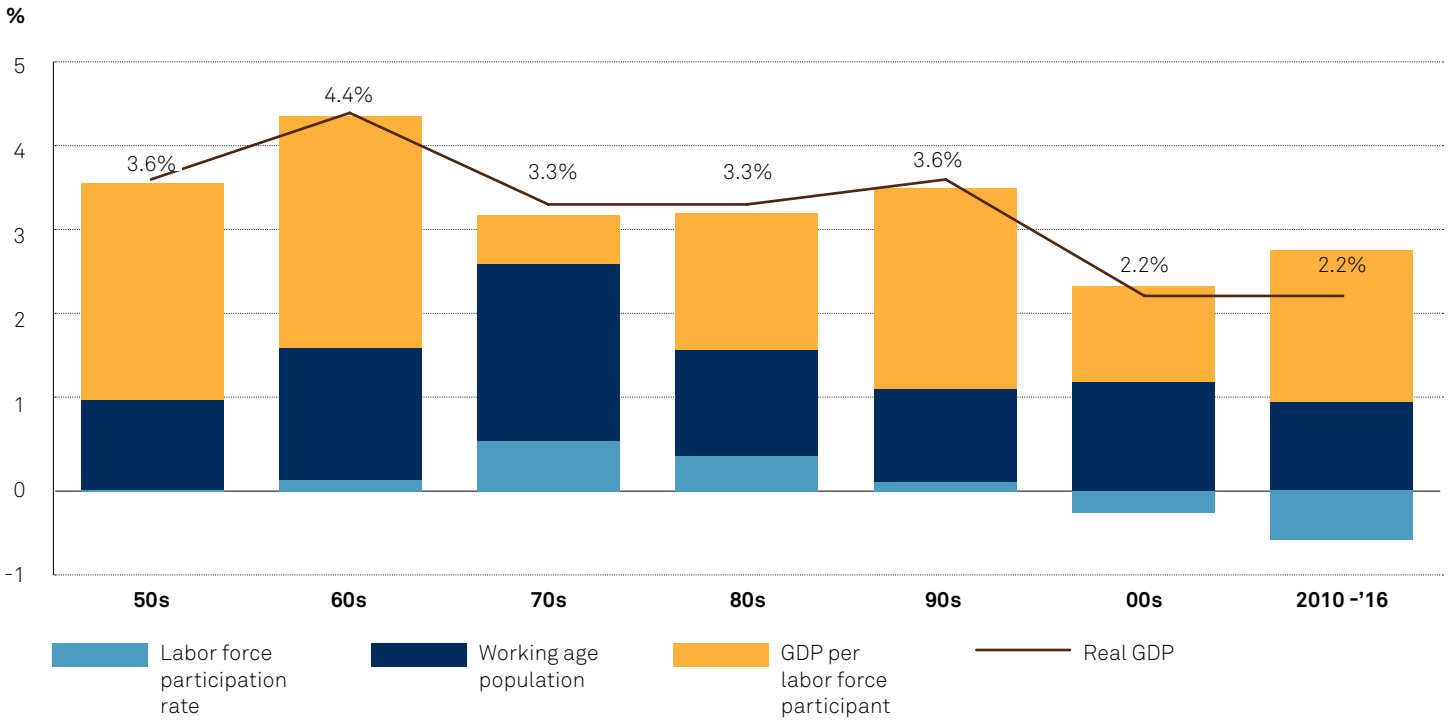
- The prime-age U.S. female labor participation rate was closer to the top of 22 advanced OECD economies in 1990. As of 2016, it is down to 20th, near last place in terms of optimizing what is considered to be an economy's most valuable resource—labor.
- If women entered, and stayed, in the workforce at a pace in line with Norway, the U.S. economy would be $1.6 trillion larger than it is today.
- Continued reductions in U.S. workplace gender inequalities would potentially add additional 5%-10% to U.S. nominal growth in just a few decades, helping to offset the currently expected drag to growth from retiring Baby Boomers.
- A Congressional Budget Office (CBO)-like "score" could assess the impact legislation would have on the economic feasibility and accessibility to the workforce for women.

The ability to raise these labor participation rates for women and benefit from it in a quality way is possible, but it would take change. For instance, one option to consider is a Congressional Budget Office (CBO)-like "score" on the impact legislation would have on the economic feasibility and accessibility to the workforce for women. A simple, objective, nonpartisan measure that would equip lawmakers with the requisite tools to asses appropriate proposed legislation and its impact on women in the workforce. A score that evaluates the impact of a bill on how many female workers would choose to remain in the workforce, one that helps measure how the cost of working compares with the income from that job. This has been done before. In their August 2010 analysis, the CBO considered the impact of the Affordable Care Act on how many workers would leave their job, and the workforce, once they had another viable health care option.

In this case, the score would look at potential economic contribution, including the potential impact on unemployment, labor force participation and productivity. It also could be used to introduce a ratio outlining the cost of entering the workforce versus the cost of childcare or staying at home due to family responsibilities. Finally, given America's problem of an aging workforce, it also could look (via another potential ratio) at how employment could be optimized as older workers leave the workforce but could still provide advanced training.

The resulting productivity boost from more women in the workforce couldn't come at a better time. In contrast to the preceding decades, the labor-force participation rate— now near a 40-year low— has increasingly become a drag on growth since the turn of the millennium (see chart 1). Because of this prolonged drag on growth, S&P Global U.S. Economics recently lowered its estimate for the potential long-term average annual economic expansion to just 1.8%—one percentage point lower than its 2.75% estimate of 15 years ago.

Chart 1
Lost Labor-Force Participation Means Lost Economic Activity



Source: BLS, BEA, St. Louis FRED and S&P Calculation

The Benefits Beyond The Numbers

On top of giving the U.S. economy a sorely needed shot in the arm to pull itself out of the potential growth doldrums, increased labor participation among women would have knock-on effects that, while perhaps not quantifiable, are no less significant. For example, women are more likely than men to invest a large portion of their household income in their children's education—and so, as those children grow up, their improved status benefits society and the economy.

Women are also 14% more likely than men to participate in job-related savings plans, and they save at higher rates up and down the income ladder, according to a 2015 study by mutual-fund giant Vanguard. Those earning less than $100,000 participate 20% more often. This helps relieve the economic burden on future generations and could allow for meaningful entitlement reforms—an increasingly critical concern, given that roughly one-third of Americans have no retirement savings at all.

But maybe the most important benefit is the economic freedom enjoyed by women in the workforce. To be sure, many women (and a growing number of men) make the admirable decision to stay at home, raising children and running households. Still others may feel they have no choice, given the often high hurdles they must clear to enter, and advance, in the workforce—not the least of which is societal pressure.

In practice, the biggest obstacle for working women to overcome involves children—both their bearing and rearing. As it stands, the U.S. is the only country in the OECD that doesn't provide income support during maternity or parental leave by law. And for single mothers, full-day care for an infant eats up 41% of median income, according to a 2012 OECD report. Only 5% of workers who garner wages in the bottom quarter of the distribution have an employer that offers paid family leave, according to the BLS, and so most are left to choose between taking care of a family member or keeping their jobs.

In a May 5 speech at Brown University, Fed Chairwoman Janet Yellen said that only 5% of workers who garner wages in the bottom quarter of the distribution have an employer that offers paid family leave, and so most are left to choose between taking care of a family member or keeping their jobs.

We have an opportunity to add

5%–10%

to nominal GDP by attracting more women to the workforce

Meanwhile, as Washington lawmakers deliberate over whether to expand the federal child tax credit—seen by many as a key element of tax reform because it would benefit lower- and middle-income Americans more than those at the top—many women are all too familiar with the "glass ceiling" that keeps them looking up at similarly (or less-) qualified men in positions above them. Add to this a wage gap that, while narrowing, stubbornly persists.

A 2016 report by Oxfam, showed that when looking at 22 "low wage women's jobs" (jobs where women are concentrated), of the 23.5 million workers in these jobs, 81% (19 million) are women. At the other end of the income scale, earlier this year in an analysis of the Fortune 1000, a list of the largest U.S. companies by revenue, only 19.8% of board seats were held by women.

For those women who do occupy the same rung of the career ladder as men, their paychecks are measurably smaller. In 2014, women's median earnings in the U.S. were just 83% of those for male full-time workers, according to the BLS. That means a woman would have to work about 44 more days a year to earn what her male counterpart did. The gender pay gap is smaller for workers aged 25-34; women in this group earned 90 cents for every dollar a man earned, according to a 2015 Pew Research Center analysis of median hourly earnings of full- and part-time U.S. workers.

Chair Yellen suggested that progress in narrowing the gender-based pay gap has slowed—with women working full time still earning about 17% less than men, on average. Even between men and women in the same or similar occupations and who have nearly identical backgrounds and experience a gap of about 10% remains, she said.

A primary reason for the gap is the inequitable share of family care that women take on. In a 2013 survey, Pew found that 39% of mothers had, at some point in their careers, taken off a significant amount of time to care for a child or other family member. More than 25% had quit work entirely to do so. Just 24% of fathers, on the other hand, had taken a significant amount of time off to assume these responsibilities—and it should surprise no one that these types of career interruptions can weigh on long-term earnings.

The employment rate for STEM educated adults stands at

88%

However, only

14%

of women studied a STEM field

An Age-Old Problem

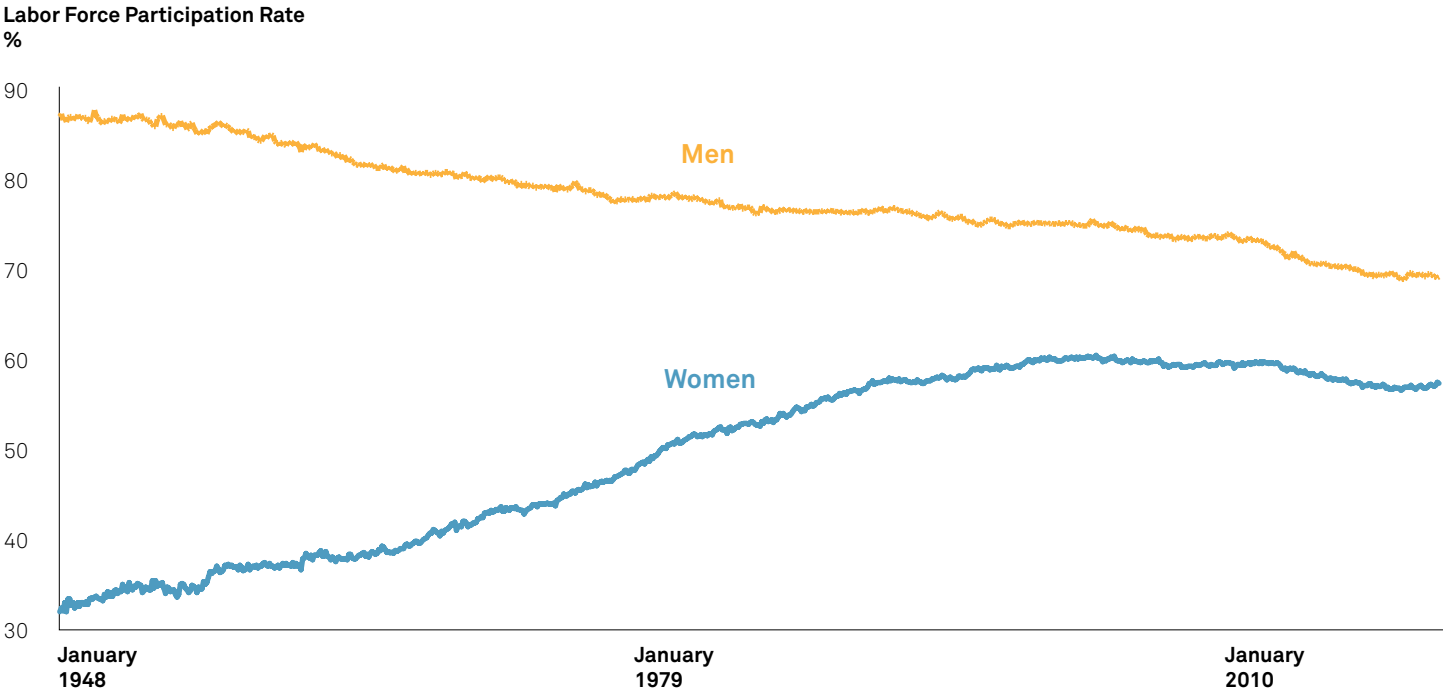
Less than 63% of the U.S. working-age population (defined as 16 and older, with no maximum age) is employed or actively seeking a job—approximating the lows of the early 1970s. For years, the surge of women entering the workforce largely offset the slow attrition of male labor force participation. But since the turn of the millennium, women's participation has also declined, to just 57% this year from roughly 60% in 2000. While the recent overall decline can largely be explained by aging Baby Boomers starting to retire, a more disturbing trend is people of prime working age (25-54) leaving the workforce, as well.

While women of prime working age made significant inroads in earlier decades, the trend has stalled. Having nearly three in every five U.S. women currently in the workforce is nearly double the rate of the years immediately following World War II (after which many working women were pushed aside to make way for returning soldiers). But it compares unfavorably to the strong gains of the 1960s-1990s, when such things as advances in household-appliance technology, the advent of the birth-control pill, and (perhaps most importantly) evolving attitudes about societal roles, including regulatory changes such as the Pregnancy Discrimination Act of 1978, gave women greater freedom to work outside the home (see chart 2).

In particular, the labor force participation rate (LFPR) for women of prime working age in the U.S. in 1990 reached 74%—one of the highest in the world. Since then, that rate has stayed roughly stable while increasing steadily elsewhere, pushing the U.S. down to 20th place among 22 advanced OECD economies by 2016. Or, in terms of optimizing what is considered to be an economy's most valuable resource labor— the US is near last place.

Chart 2

Now, U.S. women are leaving the workforce



Source: BLS-Labor Force Participation Rate (%), 16 Years and over (SA)

How Do We Get There From Here

While we've singled out Norway, many other countries provide meaningful contrast to the U.S. If we were to look closer to home, Canada offers an example where women's participation picked up dramatically a few decades ago. What is it that these countries have in common that has made it that much easier for women to enter and stay in the workforce?

For starters, there have been great gains in educational attainment for women, with a greater number of female doctors and lawyers, rather than entering more traditionally female-dominated fields, such as teaching and nursing. This has helped narrow the gender wage gap, but there are still gains to be made.

How many Alberta Einsteins or Carla Sagans in STEM (science, technology, engineering, and math) research have we missed because we didn't offer opportunities for them to develop their skills? A concerted effort to create such openings for girls to explore fields normally considered to be the boys' domain would help not only further narrow the gender wage gap, but would also move the needle on productivity growth, which today we see as painfully slow. Even a modern-day Rosie the Riveter needs advanced training to align her with a dynamic, high-tech modern manufacturing world.

In short, if more girls and women began to study subjects traditionally dominated by boys and men, we would undoubtedly see significant, structural gains in economic growth.

But education alone isn't the cure-all. True advancement would require breaking down barriers that can make it difficult, at best, for women to enter, stay, and succeed in the American labor force. And while we don't suggest that the number of women working outside the home could reasonably match the number of men who do so, we believe that a cultural shift to a more welcoming and equitable work environment would go a long way toward narrowing the difference—thus empowering the country's women and spurring an economy that has struggled to grow equitably.

Compared to men, women's earnings are just

83%

of the equivalent male full-time workers

Therefore, women must work an extra

44 days

each year to earn as much as their male counterpart does

The U.S. Has Fallen Behind

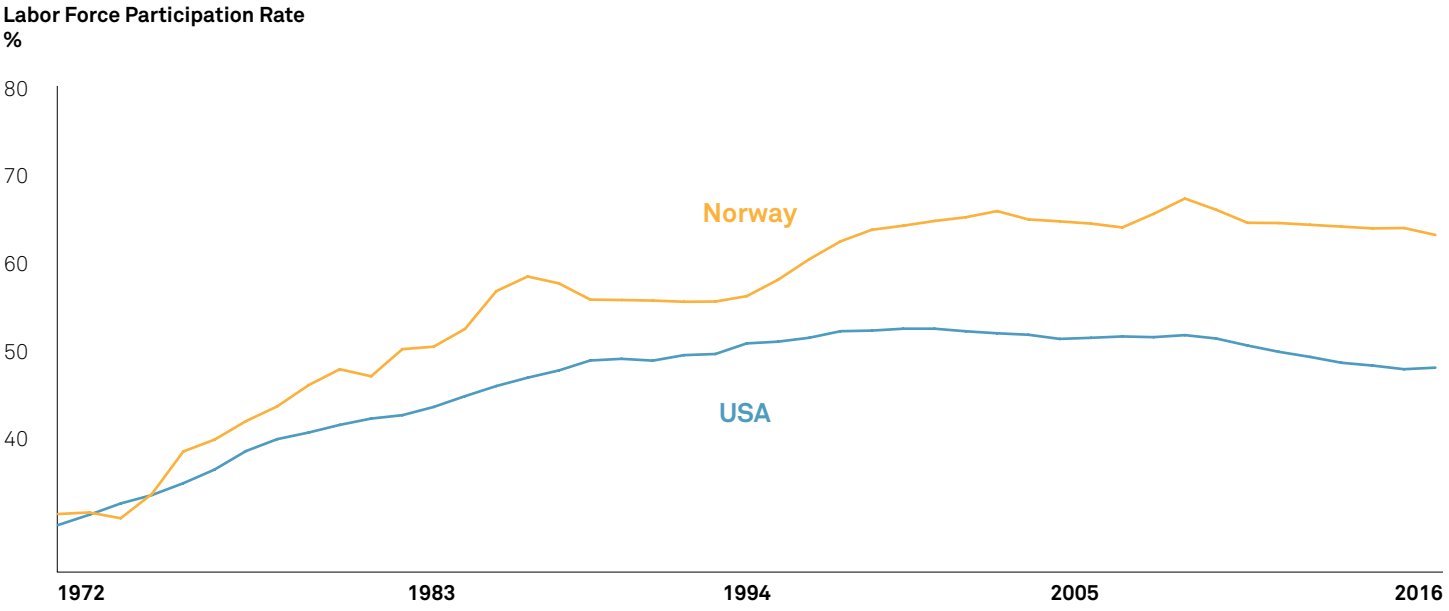
The number of U.S. women working outside the home more or less matched that of Norway in the early 1970s, at which time both countries began to see a substantial pickup in the rate. However, growth in the LFPR among Norwegian women significantly outpaced that among American women for the next few decades. U.S. women's LFPR peaked at 60.3% in March 2000, increasing by an annualized 1.3% from 1972, when it was 43.9%, according to the Bureau of Labor Statistics (BLS). Meanwhile, the LFPR among Norwegian women reached 68.9% in 2000 (and peaked at 70.7% in 2008), up from 44.8% in 1972. That's an annualized pace of 1.9%, about 45% faster than in the U.S. And while women in both countries have left the work force since the turn of the millennium, this has been much more dramatic in the U.S. than in Norway, with the drop three times as large (see chart 3).

If the growth in the women's LFPR in the U.S. had matched that of Norway from 1970-2016 (with all other factors constant), the U.S. economy would be approximately $1.6 trillion bigger than it is today. That's an extra $5,000 or so for every man, woman, and child in the country—a lack of economic growth that affects everyone indiscriminate of gender.

In terms of annual economic expansion, real GDP growth would have averaged 3.1%, rather than 2.9%, and the compounded expansion for the 46-year period would have been 311% rather than the (still impressive) 278%.

These estimates don't consider the effect of increases in women's education and work experience on U.S. productivity and growth. Moreover, the scenario is hardly outlandish. In a 2013 paper for the National Bureau of Economic Research, Cornell University economists Francine Blau and Lawrence Kahn argued that if the U.S. had policies in place such as those in many European countries, women's LFPR could be as high as 82%.

Chart 3
U.S. now falling behind in female labor participation



Source: OECD, female labor participation rate: % of working age females; OECD, total labor participation rate, with no maximum age

Education: A Helping Hand, But Not A Panacea

While gender plays a significant role in workers' vulnerability, the biggest determinant is education—an area that S&P Global believes is the springboard for women's progress. Specifically, promoting higher education in STEM fields and other areas conducive to careers traditionally pursued by men is the key that could unlock the earning power of American women.

According to an OECD report in March of last year, 58% of the 6 million students across OECD countries who attained a bachelor's degree in 2013 were women. But only 31% of the degrees awarded in sciences and engineering went to women, while 64% of those in education, humanities, and social sciences did.

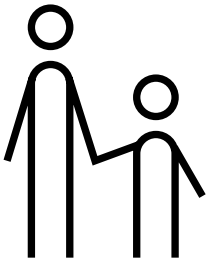
To be fair, women aren't the only American students steering clear (or, perhaps, being steered away from) STEM careers, which is unfortunate, since science-related fields offer good employment prospects. The employment rate for U.S. adults with tertiary education (college and higher) who studied engineering, manufacturing, and construction is 88%—the highest by field of study, according to the OECD.

Those who studied education—a field dominated by women, who hold more than three in every four teaching positions at U.S. public elementary and secondary schools—have the lowest employment rate, at 78%. This is compounded by the comparatively paltry pay America's educators receive. On average, U.S. teachers earn less than 60% of the salary that similarly educated workers command, the lowest percentage among OECD countries.

Still, just 23% of 25-64 year-olds with a bachelor's degree or higher studied STEM fields for their degree, while 30% of tertiary-educated adults studied in the arts and humanities, social sciences, journalism, and information fields. And make no mistake, STEM fields are largely dominated by men in the U.S., where 33% of men studied the field, compared with just 14% of women.

More than

25%



of mothers quit entirely for child or family care

Significant time taken off for child or family care

39% mothers

24% fathers

Does Promise Lie In Policy?

Various public policies foster an environment that makes it easier for women to have children and still be able to enter or stay in the workforce—and it's encouraging that Washington lawmakers are considering ways to continue this. This opens the door for a conversation that would help lawmakers evaluate the impact of their actions on the economic viability of women's ability to work.

Since Title IX took effect in 1972, guaranteeing that no one can legally be excluded from participation in any educational program merely on the basis of gender, American girls and women have made great strides toward achieving equality. But to think that the playing field is now level is, in a word, naïve.

With the passage of the Women's Educational Equity Act (WEEA) in 1974, support was provided to assist schools in the recruitment of girls for math, science, and athletic programs. Teachers were provided with training to increase awareness of gender bias in curriculum and pedagogy. In the 1980s, however, funding for WEEA was drastically cut.

In a more recent policy response, cities and states have passed—or are considering—laws designed to prevent employers from underpaying women. New York City and Massachusetts have barred companies from asking job candidates about their salary history or benefits, and at least eight other states—Illinois, Maine, Maryland, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont—have indicated that they may follow suit.

Meanwhile, in Washington, the expansion of the federal child tax credit has found at least one (perhaps unlikely) supporter: Ivanka Trump. The senior adviser to, and daughter of, President Donald Trump has suggested that the U.S. tax code must "recognize and support" the reality that last year, according to the BLS, in more than 60% of married-couple families with children, both parents were employed.

Case studies from around the globe prove that policies allowing women to fully embody their roles as outside-the-home workers are extremely effective.

For example, in 1974, Sweden became the first country in the world to give mothers and fathers legally mandated paid leave after the birth of a child—initially covering six months, then extended to 15 months as of 1990. This, along with initiatives such as subsidized day care, flexible working hours, and economic support to families with children, helped Sweden to have both the highest women's LFPR and the second-highest fertility rate (next to Ireland) among European countries in the late 1980s and early 1990s—a result that is especially surprising, given that fertility rates and women's LFPR are typically considered to be negatively correlated.

In a 1992 paper by Marianne Sundstrom at Stockholm University and Frank P. Stafford at the University of Michigan, the economists concluded that Sweden's daycare system "makes it easier to continue a career after parental leave, the availability of part-time jobs facilitates combining family and work, and the tax system limits the effects of spouse's income."

Similarly, a report from Citigroup in November of this year suggests that the reason Canadian women are much more likely to be in the workforce than their U.S. counterparts comes down to three decades of public policies and business incentives.

While the specific measures necessary to advance gender equality differ from country to country, the Citi report said certain common themes emerge—such as tax policy, childcare support, and retirement structures, as well as workplace flexibility and other employer-led initiatives. In Canada, for example, tax reforms, along with federal and provincial government support for parenting initiatives, have made all the difference. And if we need any evidence of the importance of such change, the report estimates that reductions in workplace gender inequalities could add approximately 6% to GDP in advanced economies over the course of one or two decades.

But we should not simply charge ahead without due consideration. As Yellen pointed out in her speech, policies often entail tradeoffs. In other advanced economies, she noted, women are more likely than American women to be employed part-time—and while this may reflect their ability to arrange more-flexible schedules and spend more time with their families, it comes at the cost of unbridgeable wage disparity and limited opportunities for advancement. This raises the question of whether policies designed to help women work can have unintended consequences.

Nonetheless, there must be change, and all indications certainly suggest that society recognizes this time in history as ripe for a serious overhaul in relation to gender accessibility to the workforce. This journey begins with a fundamental rethinking of policy (and policy tools) that must break through the structural short-termism of politics and look beyond simply supporting women with family obligations—a cultural privilege in a wealthy country such as the U.S. Pursuing short-term, temporary measures—especially those that leave ideas, innovation, productivity, and perspective on the sidelines—is simply a shortcut to stimulus, not a roadmap for change. If we want to spur the pace of growth in the world's biggest economy to its potential, underutilization of our greatest economic resource is no longer a viable option.

Women are

14%

More likely than men to participate in job-related savings plans and more likely to invest a large proportion of their income in their child's education