

Japan's Womenomics: a Public Policy Experiment in Fast-tracking Diversity



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“**W**omenomics” is the name given to the idea that empowering women with access to equal socio-economic participation will spur both economic benefits and social progress. Kathy Matsui and her Goldman Sachs team were the first to coin the term in 1999 and explore Japan's growth potential due to increasing female labor force participation rates. Womenomics as a policy in Japan was finally adopted as a major platform under Prime Minister Shinzo Abe's leadership in 2013. In practice, Womenomics uses public policy to implement change on a society-wide level, making it a public policy experiment in accelerating societal change. Womenomics considers the lack of equal female participation in the workforce, especially within populations of highly educated women, an untapped and undervalued resource which should contribute to economic growth along with market performance. For economies like Japan's with an aging demographic and declining population, women's participation becomes critical to success.

ECONOMIC FACTORS DRIVING WOMENOMICS' ADOPTION

Japan's underlying economic context is especially important when considering Womenomics and public policy, as both economic and cultural incentives have kept women out of the workforce. The economy has been experiencing deflation and stagnant growth for several decades resulting from demographic obstacles such as a low birth rate, an ageing and shrinking population, emerging labor shortages and economic obstacles such as high fiscal debt (currently, 236% of its GDP). This places pressure on policy makers to find some way to increase GDP. While monetary and financial policies play a role in tackling these issues, Womenomics is seen as a mechanism for solving both demographic and economic problems at once. More working women means more household income; more income translates into higher consumption; higher consumption leads to expanded corporate profits; expanded profits mean more investment and wage growth, and so on. In other words, Womenomics can drive a cycle that produces an expanded economic pie rather than a static one, leading to more jobs and economic benefits for everyone, not just women.¹

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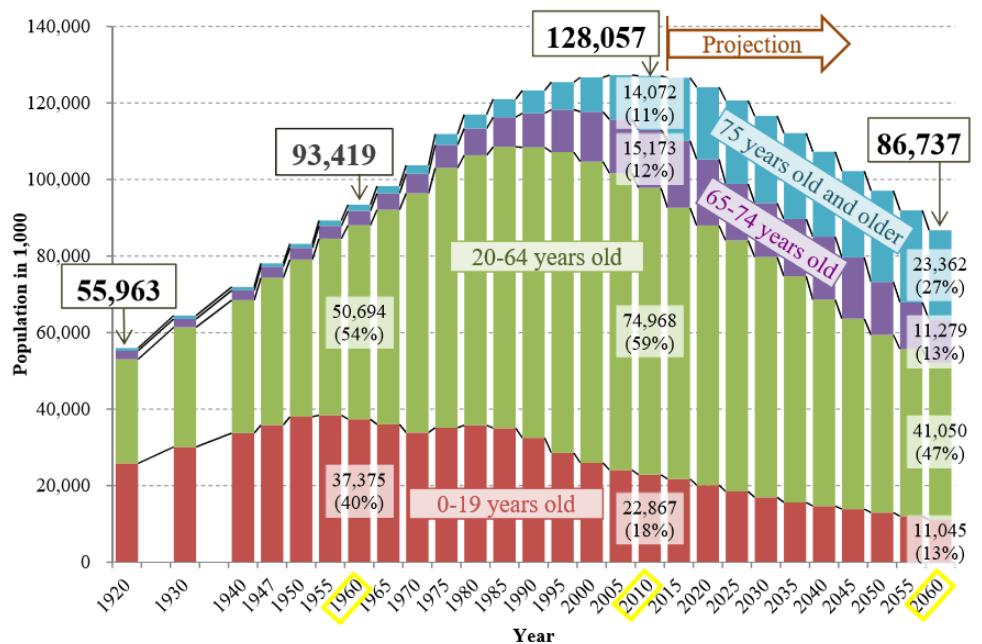
Japanese demographics

Shrinking Japan: Japan's population peaked at 128 million in 2010 after increasing throughout the twentieth century, and had already begun to shrink by 1.5% to 126 million in 2018. Based on government projections, the population will decline by 30% to just 88 million by 2065. Japan's population is already the oldest of any OECD country and will remain so for the foreseeable future. Japan's old age dependency ratio will rise to around 78% by 2050, the highest of any nation globally, meaning that statistically, each Japanese worker will need to support 1.3 elderly persons.² And at 1.4, Japan's birth rate remains very low, suggesting the pressure on the workforce and to take care of an aging population will not let up soon without a change.³

Figure 1

Source: For data up to 2010, Census data by Statistics Bureau of Ministry of Internal Affairs and Communication (<http://www.stat.go.jp>). For data from 2015, "Population Projections for Japan", IPSS. Social Security in Japan 2014, p.1, http://www.ipss.go.jp/s-info/e/ssj2014/pdf/01_SSI2014.pdf

POPULATION TREND BY AGE GROUP IN JAPAN (1920-2060)



A declining population poses problems for Japan's GDP. The IMF has warned that in the absence of meaningful structural reforms, demographic headwinds could cause the level of Japan's real GDP to decline by over 25% in next 40 years.⁴ A declining GDP, combined with soaring pension and healthcare burdens, worsen Japan's already massive fiscal debt, which is currently 236% of its GDP, the highest in the world.⁵ Japan's declining demographics place both a financial burden and a care-taking strain on its citizens.

While societal factors like demographics place pressure on Japan to increase GDP, societal trends keep women, valuable human capital, out of the workforce.

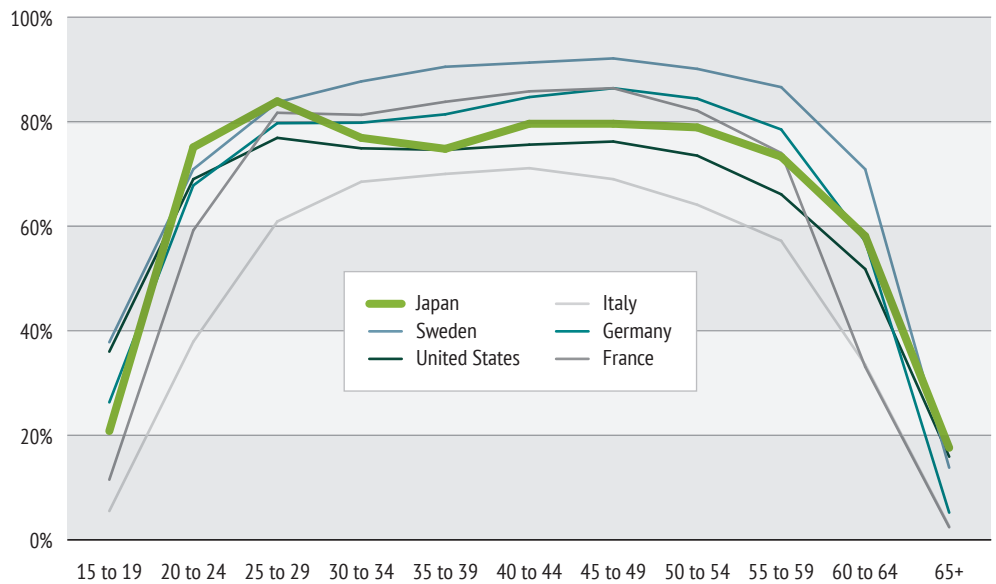
Socio-economic factors affecting the female labor force participation rate in Japan

M-curve: Statistics show that some proportion of women of reproduction age quit working after delivering their first babies, and this percentage is higher in Japan than in many other developed countries. After giving birth, nearly 70% of employed Japanese women have traditionally stopped working, compared to 30% in the U.S.⁶ Since Japanese women tend to be highly educated, this reduction in women working is an economic loss. The university enrollment rate for 18-year-old Japanese females is 76.5%. In most OECD countries, the labor force participation rate of university-educated women stands between 70-80%, while the same ratio in Japan is just 66%.⁷

Figure 2

Source: Mizuno Testu, Abenomics is Womenomics, <https://www.japanpolicyforum.jp/economy/pt20160605163823.html>

WOMEN'S EMPLOYMENT RATE



This low female employment rate is a product of several obstacles in women's paths. Kathy Matsui and her team determined the main obstacles are:

Insufficient childcare and nursing care support: Due to limited availability of convenient sites for daycare facilities, excessive regulation, strict local safety standards, and a shortage of daycare workers, there is a severe shortage of available childcare and nursing care in Japan. The proportion of Japanese children at daycare centers is just 28% for children under age 3, which is far lower than the comparable ratios of 63% in Denmark, 43% in France, and 40% in the U.S. An insufficient supply of nursing care for elderly parents in a country with an aging population places another burden on Japanese women, as many find themselves taking care of both spouse's parents. In a country with a culture where women traditionally assume the caretaker role, a lack of adequate care options is a serious hurdle to women's participation in the workforce.



In Japan, there are very few female role models, and women are severely underrepresented

Tax distortions: Japan has a tax system that discourages women from fully participating in the workforce with a tax exemption of JPY 380,000 (USD 3582 as of Aug 2018) per household if the secondary earner's annual income does not exceed JPY 1.03 million (USD 9710 as of Aug 2018). In order to take advantage of this tax exemption, most women stay home or work a part-time job to remain below the ceiling.

Inadequate focus on diversity: In Japan, there are very few female role models, and women are severely underrepresented in broader Japanese society. Large wage gaps are the result of Japan's lacking focus on diversity and equality. At 24.5 percent in 2018, the gender wage gap is the second largest among OECD nations, surpassed only by South Korea.⁸ An absence of consideration for women returning to work after giving birth is evident in companies' inflexible working hours policies and a lack of support for mothers in the workplace. This burden on mothers can seriously affect a mother's decision to return to work.

Rigid immigration laws: Japanese immigration is very tightly controlled and regulations on foreign caregivers are high. Deregulation for foreign nurses and caregivers as well as boosting female participation in the workforce are potential solutions to this crisis.

Japan's cultural context is also significant for understanding the lack of female participation in the workforce.

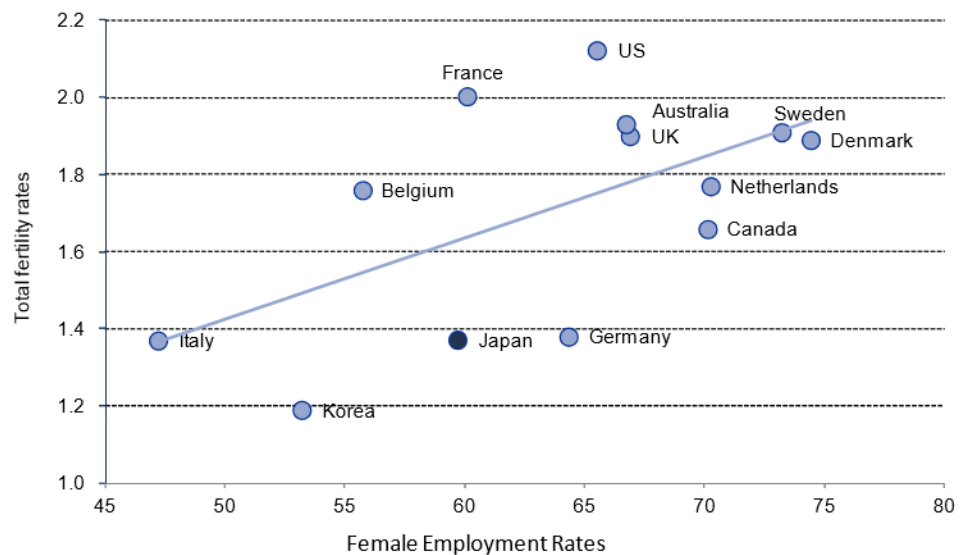
Cultural workplace expectations and discrimination: Discrimination against women in the working world reduces the representation of women in leadership positions and participation in work. Japanese corporations currently have two career tracks, a high-level track and a second-tier track. The high-level career track requires extensive working hours and discourages long-term leaves such as maternity leave, putting many women in the position to choose between family and a career. The second-tier track is mainly for part-time workers and has limited career support or other employment benefits. Moreover, *mata-hara*, so called maternal harassment, still exists in major corporations which consciously discourage female workers who have given birth from continuing to work on the high-level career track.

Female employment vs. fertility rate: The narrative that if women work more, the birth rate will decline even further is quite prevalent in Japan, despite empirical evidence to the contrary. However, this narrative remains a powerful cultural force in reducing female workforce participation.

Figure 3

Source: Kathy Matsui, Hiromi Suzuki, Christopher Eoyang, Tsumugi Akiba and Kazunori Tatebe, "Womenomics 3.0: The Time is Now", Goldman Sachs Portfolio Strategy Research, October 1 2010, p. 24, https://www.goldmansachs.com/insights/investing-in-women/bios-pdfs/Womenomics3_the_time_is_now_pdf.pdf

CORRELATION BETWEEN FEMALE EMPLOYMENT RATES AND BIRTH RATES IS POSITIVE, NOT NEGATIVE (2008)



Womenomics is at the core of Prime Minister Abe's growth strategy

THE WOMENOMICS POLICY RESPONSE

Kathy Matsui and her team suggested multiple public policy initiatives to increase female labor force participation and support GDP growth. The team recommended policies such as expanding the capacity and affordability of daycare and nursing care facilities and services, immigration reforms to allow outsourcing for care and home services, more substantial childcare benefits conditional on workforce participation, and tighter enforcement of the Equal Employment Opportunity Law in terms of wage, employment, discrimination, and other policies as listed below.

- Introduce legislation that empowers parents to ask for more flexible work schedules and requires employers to consider those requests (similar to legislation introduced in the UK in 2003)
- Fully eliminate the tax distortions which discourage married women from working
- Employers should adopt fair and objective evaluation, compensation, and promotion schemes
- Employers should promote more flexible working arrangements and adopt more tailored and flexible career management processes
- Employers convincing their employees that diversity is critical to their bottom line

Prime Minister Shinzo Abe's policies have seized upon Womenomics as a way to reinvigorate Japan's economy. In an April 2013 speech, he announced that Womenomics is at the core of his growth strategy, making gender equity a central theme in Japan's public policy rather than a secondary social policy initiative.⁹ And in September 2013, he wrote in *The Wall Street Journal* that his cabinet had pledged to create a society in which "all women can shine."¹⁰

Unleashing the potential of Womenomics is an absolute must if Japan's growth is to continue... Womenomics offers a solution with its core tenet that a country that hires and promotes more women grows economically, and no less importantly, demographically as well.¹¹

Abe affirmed the goal of having women occupy 30% of Japan's political leadership positions by 2020 and pushed all of Japan's listed corporations to have at least one female director. He has been trying to lead by example, appointing two female executives to his party's four executive posts. He promised to increase funding for childcare, relax the regulations for childcare facilities, and double the capacity of Japan's daycare facilities. He also proposed tax code alterations to encourage married women to re-join the workforce, and has repeatedly advocated female empowerment in his speeches.

In terms of specific policies, Japan increased parental leave benefits to 67% of an individual's salary in 2014 to better support working families and encourage work before and after having children. And in 2015, Japan passed a law requiring both private and public companies to disclose gender diversity policies and action plans. Efforts to expand childcare availability are in progress.

A REPORT CARD ON RESULTS (SO FAR)

Results of Womenomics policies vary depending which metric is used as a measure of success.

Specific policy impacts

In the twenty years since the first Womenomics reports were published, the Japanese female labor force participation rate grew from 56% in 1999 to a record of 71% in 2019. In the past six years of Abenomics, the number of working women has increased 12.5 percent to 29.7 million in 2018. This female labor force participation rate surpasses that of both the U.S. and Europe. Japan has also introduced one of the most generous parental leave policies in the world, improved gender transparency, and introduced workplace reforms which mandate overtime limits and equal pay for equal work. Total daycare capacity has expanded by 27 percent (from 2.2 million in 2012 to 2.8 million as of 2018).

There is certainly more progress to be made, however. Tax distortion elimination proposals have been made by Abe's government several times without success. The tax code and other financial disincentives still discourage women from returning to work after giving birth, leaving a barrier to increasing female labor force participation in place. And resistance may stem in part from a lack of female representation in Parliament. On average, female policy makers represent 14% percent of Diet seats (10% of the Lower House and 21% of the Upper House). This absence of female policy makers is just one example of an absence of female leadership in Japan, which is a cultural issue that will not change as quickly as childcare policy allowing women to work.

Figure 4

- = Completed
- ▲ = In progress
- ✕ = Slow Progress

Source: Goldman Sachs Global Investment Research

PROGRESS IN WOMENOMICS' GOALS

PROGRESS REPORT CARD OF WOMENOMICS PROPOSALS	
●	Raise female labor participation rates Boost Japan's low female labor participation rate (record 71% as of February 2019 vs. 63% in 2013); more than 3mn additional women are working vs. 2012
▲	Normalize the "M-curve" Raise the percentage of women returning to work after their first child from 38% in 2010 to 55% by 2020 (currently 53%); lift the female labor participation rate between the ages of 25-44 from 68% in 2012 to 77% by 2020 (2019: 74%, and new target: 80% by 2022)
✕	Female leadership representation Target 30% female representation in leadership positions across Japanese society by 2020
▲	Expand childcare capacity Expand child care capacity with the aim of eliminating children on daycare waitlist by 2020
▲	Lift paternity leave uptake ratios Increase the percentage of fathers who take paternity leave from 2.6% in 2011 to 13% by 2020
●	Augment parental leave policies By 1999, one year of paid maternity leave was made available to both parents, and by 2014, the government allowed for two-thirds of earnings to be replaced during the first six months of parental leave
●	Improve gender diversity transparency 2015 legislation requires public and private organizations to disclose their gender diversity conditions and action plans
●	Work-style reforms Labor reforms introduced to limit overtime hours and mandate equal pay for equal work

GDP

When looking at GDP, annual GDP growth has hovered around 0-2% from 1999-2019. But this does not mark Womenomics as a failure, as many other factors contribute to GDP as well. We cannot know the counterfactual had Prime Minister Shinzo Abe's policies not been in place.

JAPANESE GDP PERCENTAGE GROWTH 1999-2019

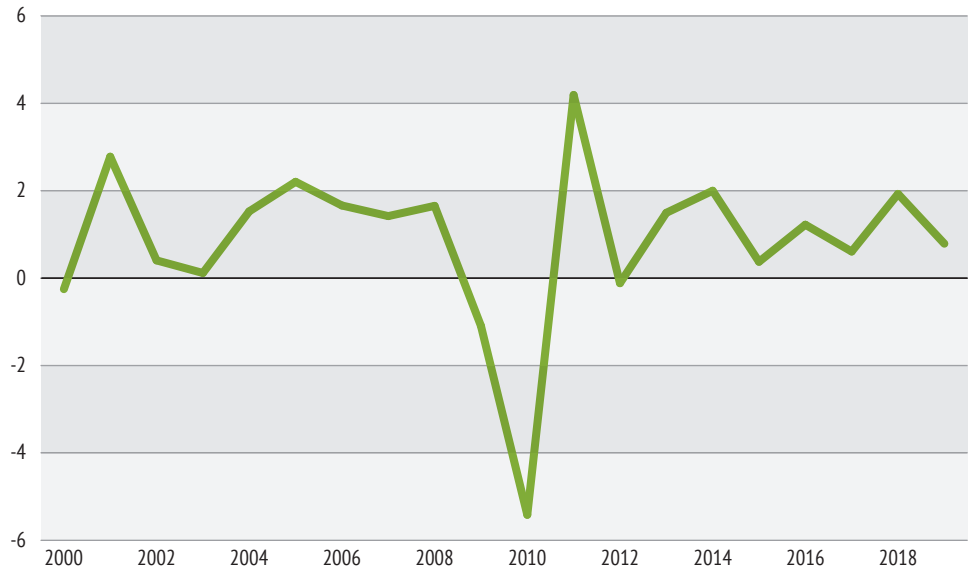


Figure 5

Source: data.worldbank.org

WIN Index

A lack of sudden expansion in GDP may represent slower-moving changes across the country. For example, women's labor force participation has increased since Shinzo Abe took office, but the number of women in leadership positions in Japan has not grown by as much. Japanese women in management and other leadership positions stayed at 12 percent in 2018, while the ratio of women in those positions globally was 27.1 percent. Japan's figure remains the lowest among the Group of Seven nations, up just 3.6 points from 1991¹². These data points show that cultural shifts towards appreciating women's value lag the pace of women entering and remaining in the workforce.

But when we look at the MSCI Empowering Women Index (WIN), comprised of companies whose gender diversity initiatives are credited with encouraging more women to enter or return to the workforce, outperformance is evident. Thus far, the WIN Index has outperformed the broader MSCI Japan index by 9.5% since 2010.¹³ The WIN Index's outperformance exemplifies the significance of cultural change for economic performance, which is modeled here but not as widely modeled in broader Japanese culture.

Figure 6

Source: MSCI, QUICK

Kathy Matsui, Hiromi Suzuki, Christopher Eoyang, Tsumugi Akiba and Kazunori Tatebe, "Womenomics 5.0: Twenty Years On", April 18, 2019, p. 45, <https://www.goldmansachs.com/insights/pages/Womenomics-5.0/>

MSCI JAPAN WOMEN'S EMPOWERMENT INDEX (WIN) HAS OUTPERFORMED THE MARKET INDEX, RELATIVE TO MSCI JAPAN INDEX, DEC 30, 2010=100, AS OF APR 8, 2019





Womenomics is a catalyst for building a more efficient economy ... delivering results and growing GDP

WOMENOMICS AS AN EXPORTABLE MODEL FOR FAST-TRACKING DIVERSITY

The implementation of public policy in Japan to improve conditions for working women and families overlaid on Japan's economic and demographic context has driven success for Womenomics in Japan. By placing gender equity at the top of its agenda, the government spurred growth in women's labor force participation that would not have been seen without it. And while Japan's GDP growth has not skyrocketed since this increase in labor force participation, cultural shifts lag policy changes and leave us hopeful for the future impact of Womenomics in Japan.

Japan has finally begun to recognize women as critical for economic success, and market performance data backs up this revaluation of women. For example, a 2017 McKinsey study of 300 global companies found that firms with the most female executives enjoyed 47% higher average ROE than those with none, and 55% higher EBIT margins.¹⁴ And Boston Consulting Group performed a survey of more than 1700 companies in eight countries finding that firms with above-average "total diversity" (measured as the average of migration, industry, career path, gender, education, age) had on average 19 percentage points higher innovation revenues and 9% points higher EBIT margins.¹⁵ Furthermore, according to a Nordea study, companies run by female CEOs or with a female head of the board of directors had a 25% annualized return since 2009 compared to the MSCI World Index return of 11%.¹⁶ Investing in women pays off for both companies and shareholders. So, the private sector has caught on to the importance of women in the labor force, and Japan's public policy has too; it is only a matter of time before female leadership and GDP catch up and exhibit the returns women produce for an economy, as the WIN Index already has.

Lessons learned from the Japanese experiment in Womenomics can be exported and emulated... to achieve social progress

The Japanese experiment shows that Womenomics is a catalyst for building a more efficient economy, where individuals utilize their strengths to their highest potential, delivering results and growing GDP. While a public policy path may seem at times arduous and at odds with market forces, Womenomics nevertheless garners broad support due to its association with higher returns for investors and the economy. We see countries with large gaps between women's educational achievement and leadership participation as prime targets for adopting a Womenomics model, as these countries misallocate human capital and reduce efficiency by not tapping into women as significant economic contributors. We expect that the lessons learned from the Japanese experiment in Womenomics can be exported and emulated in these countries to achieve social progress, improve economic conditions, and deliver superior investment returns.

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Active investment process integrates risk management with fundamental research and ESG analysis to generate alpha potential

Employee-owned and majority women-owned firm

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WHAT MAKES US DIFFERENT

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TEAM: Our CIO's extensive portfolio management experience and scientific background provides a distinct perspective coupled with a team diverse in both thought and culture.

INDEPENDENCE: We are an employee-owned firm. Our interests are aligned with your interests.

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