

# Womenomics: Japan's Hidden Asset

By **Kathy MATSUI**

Progress is finally being made in eliminating some of the obstacles to higher female participation in the workforce, which can help mitigate some of Japan's demographic pressures and raise the long-term trend growth rate.

## Women: Part of the Solution

While demographics pose a challenge to every developed economy, none is expected to be as hard hit as Japan. Based on most projections, Japan's population (currently 127 million) is estimated to decline steadily to approximately 101 million by 2050 after peaking in 2006. Its workforce population (age 15-64) is already shrinking and forecast to fall by nearly 10% within the next 20 years (*Chart 1*). Based on current forecasts, Japan will have only two workers for every one retiree within the next 30 years and two retirees for every three workers by 2050.

Conventional wisdom suggests that a shrinking population is unambiguously negative for economic growth. Yet, in our opinion, not all is necessarily doom and gloom if Japan can make better use of its most underutilized resource: its women.

We first wrote about "womenomics" back in 1999, and our conclusion has not changed. That is, out of economic necessity or as a result of lifestyle choices, an increasing proportion of Japanese women

are actively participating in the workforce and becoming a very important source of income and consumption growth. While much more progress still needs to be made at both the public- and private-sector levels to foster greater female labor participation, we believe Japan is finally moving in the right direction.

## 3 Options for Raising Japan's Demographic Profile

There are three ways that a country can improve its demographic profile:

1. Raise the birthrate,
2. Permit more immigration, or
3. Increase the labor participation rate.

### 1. Higher fertility? Difficult when more are opting to stay single

Japan's birthrate fell to a record low of 1.26 in 2005, which was the lowest of the G6 countries. The Japanese government has attempted to raise the fertility rate by offering everything from child-rearing subsidies to gifts from local wards upon giving birth, but none of these have proven effective.

One of the key factors driving down Japan's birthrate is the secular rise in the percentage of Japanese women (and men) choosing to remain single. The ratio of unmarried women between the ages of

25-29 more than doubled in the last 20 years to 54% in 2000 from 24% in 1980. Similarly, for those who opt for marriage, the average nuptial age rose to 29 in 2003 from 25 in 1980.

As a result, there has been a steady increase in the number of single-person

households in Japan – from 7.1 million in 1980 or 20% of all households to 12.9 million (27%) as of 2000. According to government estimates, this number is also expected to rise further to 17.2 million (34%) over the next two decades. It is difficult to pinpoint the exact causes of this "staying single" phenomenon, but unless this trend reverses, it will be difficult to stem Japan's declining birthrate.

### 2. Immigration? Helpful, but not a panacea

While boosting immigration would seem to represent one of the easier solutions to Japan's demographic problems, the number of immigrants that would be required to sustain the country's current workforce population is staggering.

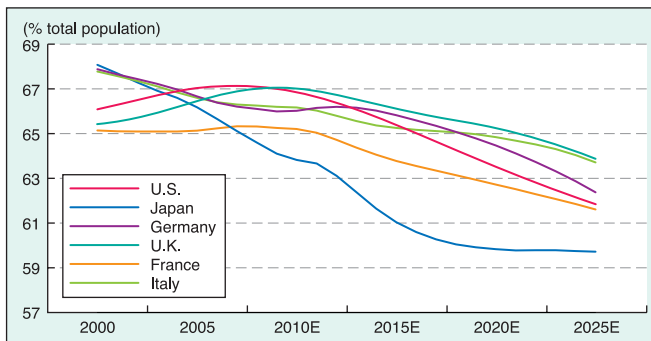
For example, our global economists recently concluded that in order for Japan to maintain its current workforce population in 2050, it would have to increase the share of immigrants within the total population from just over 1% today to as much as 20% in 2050.

We do believe that some immigration could help alleviate some of the nation's demographic pressures. However, since an increase of this magnitude would require nothing less than a revolutionary shift in Japanese political and social thinking, immigration alone is unlikely to provide the answer.

### 3. Increased labor participation is the key

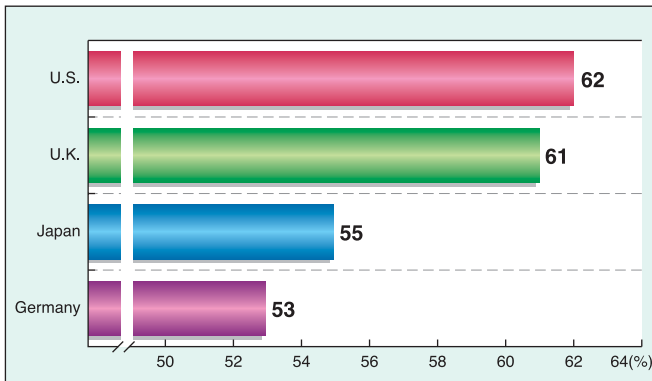
Given the difficulty with the first two choices, we believe increasing Japan's labor participation rate – especially of its females – is the most practical and effective option. We believe it can help offset the negative impact of a shrinking pool of labor on income and demand growth over the longer term. Indeed, our economic simulation suggests that if Japanese female participation rates rose to levels currently seen in the United States, this would add 2.6 million people to the workforce, raising Japan's trend GDP growth rate from 1.2% to 1.5% over the next two decades.

**Chart 1 G6 workforce population forecast to shrink after 2010 – Japan expected to be hardest hit**



Note : E shows estimates.

Source : US Census Bureau estimates, Goldman Sachs Research calculations

**Chart 2 Japan's female labor participation ratio still relatively low**

Source : US Census Bureau, Goldman Sachs Research calculations

There are essentially two ways to raise labor participation rates in Japan: to increase the retirement age and to raise the relatively low female participation rate.

Despite increased life expectancy in Japan, where the average longevity has risen to 85 years for a woman and 78 for a man, the retirement age still stands at 60. According to a recent simulation by our Global Economics Team, if Japan delayed its retirement age to 70 from 60, this could reduce the rate of decline in the workforce from 15% to 9%. This could lift Japan's long-term trend growth from 1.2% to 1.5% over the next two decades and boost per-capita income by 7%.

In addition to having older Japanese work for longer, another obvious way to boost labor participation rates is by increasing female participation. While Japanese female participation has been rising over the past several decades, as of 2004, the overall participation ratio is still low at 55%, compared to other developed countries, where the comparable ratio stands at 62% in the United States and 61% in Britain (*Chart 2*).

### Japan's "M-curve" Phenomenon

One of the reasons behind Japan's low female participation rate is the so-called "M-curve" phenomenon. While in most developed countries, the labor participation rate is relatively high throughout the productive life of a woman, Japan's rate notably drops between the ages of 30-44 as women exit the workforce in order to raise children (*Chart 3*). This phenomenon is unique to Japan;

most other developed countries such as the United States do not have such an "M-curve" in their female participation rates.

Related to this is the startlingly low labor participation rate of Japanese females with higher levels of education. In most developed economies, the participation rate of women with at least high-school diplomas is 70%-85%, while the equivalent ratio in Japan stands at just 63%-70%.

### Factors Behind Japan's Low Female Participation Rate

Some of the main reasons behind Japan's relatively low female participation rate include:

- Insufficient childcare and nursing care support,
- Rigid immigration laws, and
- Inadequate focus of the private and public sectors on diversity

### Childcare & nursing care support

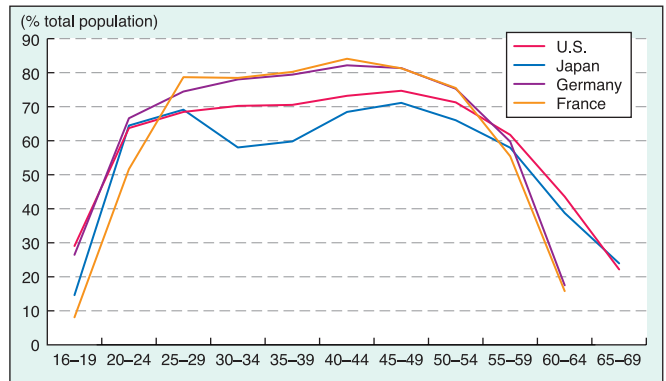
Perhaps the biggest reason for the "M-curve" in Japanese female labor participation is inadequate childcare and nursing care/convalescent support.

While the pattern has changed somewhat from postwar Japan, the "typical" life cycle for an adult Japanese woman remains:

1. Graduate from high school or university and find a job (average age: 18-22 years)
2. Get married (age: 25-29 years)
3. Become pregnant, then drop out of the workforce in order to raise children (age: 30-39 years)

**Chart 3 Japan's "M-curve"**

International comparison of female labor participation rates by age group



Source : MIC, US Census Bureau, Goldman Sachs Research calculations

4. Once the children become independent, resume work (approximate age: 45)

5. Yet even if work is resumed after age 45, it is typically limited to part-time work since by this stage, either her husband's or her own parents often begin requiring convalescent support.

Given this typical lifecycle, it is virtually impossible for many Japanese women to participate more meaningfully in the workforce unless they are able to outsource some of these heavy-duty responsibilities such as daycare and nursing care.

Traditionally, most Japanese families have relied on relatives for childcare support, but over time, this has become increasingly difficult as the number of multi-generational households diminishes.

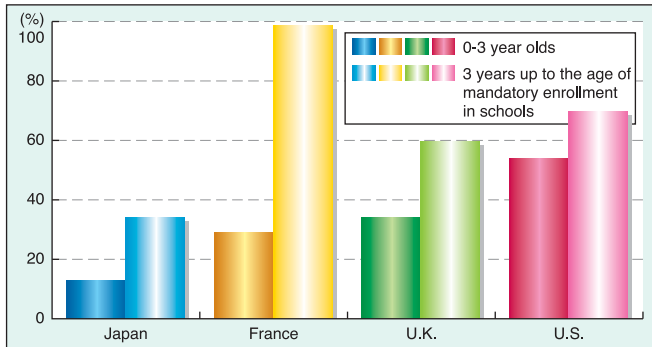
In terms of daycare usage, the proportion of Japanese children at daycare centers stood at just 13% for children under three years of age and 34% for those between three years and the age of mandatory enrollment in school. This is far lower than the respective ratios of 29% and 99% in France and 54% and 70% in the United States (*Chart 4*).

In order to cope with the shortage of daycare facilities, the government rolled out a plan in 2001 aimed at increasing the number of such facilities to accept more children. Based on the plan, the total capacity of the nation's daycare system is targeted to increase 9% to 2.15 million by 2009 from 1.97 million in 2004.

While the government is working hard to build more daycare centers, the reality is that most of these centers have restricted hours (i.e., 8 a.m. to 5 p.m.), meaning that unless a woman works on a part-time basis, it is difficult to pick up

**Chart 4 Japanese daycare usage low**

International comparison of percentage of children at daycare centers



Note: Data includes both public and private provision. As of 1995 for the U.S. 1998 for Japan, France and U.K.

Source: Organization for Economic Cooperation and Development (OECD)

the child from the daycare center or stay at home when the child becomes ill.

While there is a wide range, the average cost of a Japanese babysitter is roughly ¥1,500 to ¥2,000 per hour in the Tokyo area. Assuming that a babysitter is employed for 80 hours per month (i.e., four hours per weekday) at a cost of ¥2,000 per hour, the total cost would amount to ¥160,000 per month. Compared to the average salary of a working woman aged 30-44 of ¥260,000 per month, this means that use of a Japanese babysitter would account for roughly 62% of a woman's monthly paycheck, significantly reducing her economic incentive to work.

### Rigid immigration laws

We believe that one step toward resolving the problem of insufficient daycare would be to ease immigration restrictions for foreign workers. The problem, however, is that even if a Japanese person wanted to hire a foreign babysitter, current immigration laws prevent Japanese

current immigration laws were erected during the postwar period. While they made sense during a time when Japan's economy was in a high-growth phase and labor was abundant, times have clearly changed, and this obviously requires a more flexible immigration system.

### Inadequate focus on diversity issues

Another reason for low female participation has been inadequate attention paid by the private and public sectors on promoting diversity and work/life balance issues in the workplace.

While one could argue that the fault lies more with the female employees themselves not working long enough to develop their careers, we believe that some of the blame also lies with employers who have not been sufficiently proactive in recruiting, training, developing and retaining their pool of female employees.

As a result, there is a distinct lack of female role models in Japan. According

nationals from sponsoring foreign domestic helpers.

In terms of elderly care, some modest progress has been made, with the Japanese government agreeing to accept a small number of nurses and nursing care workers from countries like the Philippines.

Many of Japan's

to the International Labor Organization, the ratio of female managers in Japan stood at just 9% in 2003, compared to 46% in the United States and 27% in Germany.

Given the severe labor shortage that the nation is confronting, we hope that more and more Japanese firms as well as the government will come to realize that promoting diversity is just as important a priority as profitability and government efficiency.

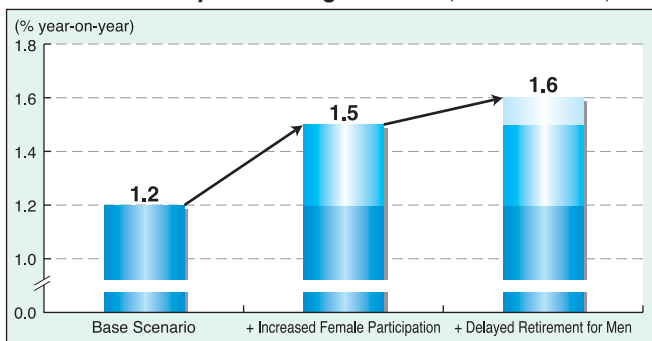
### Economic Implications of Womenomics

The economic implications of womenomics are very significant. Our global economists modeled the impact of increased female participation on Japanese trend GDP growth and found that adding some 2.6 million females to Japan's workforce population would lift the nation's long-term trend GDP growth rate from our base case scenario of 1.2% to 1.5%.

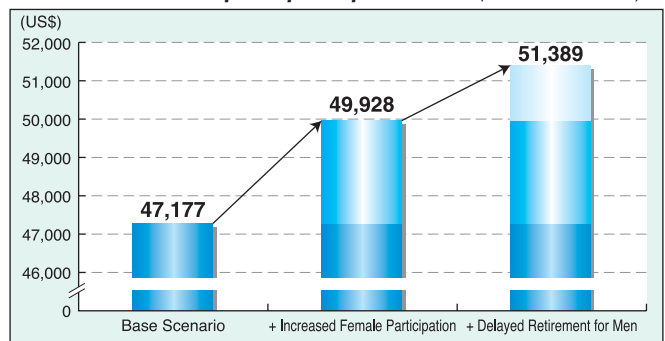
If, in addition to increased female participation, Japan also raises the retirement age for men, this would lift GDP growth even further to 1.6% (Chart 5).

Under our scenario whereby the Japanese female participation rate rises to that of the United States, per capita income would be 5.8% higher than our original projections, and 8.9% higher if—in addition to a higher female participation rate—Japanese men also worked longer (Chart 6). **JS**

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**Chart 5 Higher female participation & delayed male retirement could raise Japan's trend growth rate (2005-25 estimates)**

Source: Goldman Sachs Global Economic Research estimates

**Chart 6 Higher female participation & delayed male retirement could also raise Japan's per capita income (2005-25 estimates)**

Source: Goldman Sachs Global Economic Research estimates