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## Feminist-Kaleckian macroeconomic policy for developing countries

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## **Working Paper No. 446**

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### **Feminist-Kaleckian Macroeconomic Policy for Developing Countries**

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## **ABSTRACT**

This paper reviews evidence of the gender effects of globalization in developing economies. It then outlines a set of macroeconomic and trade policies to promote gender equity. The evidence suggests that while liberalization has expanded women's access to employment, the long-term goal of transforming gender inequalities remains unmet and appears unattainable without state intervention in markets. This paper sets forth some general principles that can produce greater gender equality, premised on shifting from economies that are profit led and export oriented to those that are wage led and full-employment oriented. The framework is Kaleckian in its focus on the relationship between the gender distribution of income and macroeconomic outcomes.

JEL Codes: F4, J2, O11, O2

Keywords: gender, income distribution, well-being, industrial policy, foreign direct investment, trade, macroeconomic policy.

## 1. INTRODUCTION

Over the last two decades, a number of development economists have critically assessed mainstream trade and growth strategies, propelled by a concern with persistent gender inequality. That body of work explores the linkages between macro-level policies and the gender distribution of resources and responsibilities at the micro-level. Research underscores that macro-level policies can hinder or help achieve gender equity, and that gender inequities, in turn, can promote or hamper the attainment of macroeconomic objectives. There is thus a two-way causality between macroeconomic variables and gender equity.

This paper reviews that research, drawing attention to insights that can inform strategies for shaping macro policy in a way that enables gender equity. This is followed by an effort to outline the broad contours of gender-equitable macro policy. This is a difficult task, given wide variations in types of economies, institutional mechanisms, and cultural forces that reinforce gender inequalities. Nonetheless, there are some generalizable approaches alongside more specific policy proposals for countries at different levels of development.

Briefly summarizing the conclusions of this paper, to achieve the combined goals of improving women's relative well-being and promoting economic growth requires policies that can shift a "profit-led" export-oriented economy to one that is wage-led. The strategy we outline has three components at the national level: 1) industrial and agricultural development, coupled with trade policies to shift production to emphasize price-inelastic goods and services; 2) restrictions on flows of physical and financial capital; and 3) fiscal and monetary policies sensitive to the goal of gender equity. This strategy requires shifts at the international level as well, including the expansion of "special and differential treatment" of developing countries in trade agreements, demand management policies to stimulate growth in developed economies, and regional coordination to ensure domestic benefits from foreign direct investment.

The paper is organized as follows. Section 2 explores the goal of gender equity and provides a feminist-Kaleckian perspective on desirable macroeconomic outcomes. Section 3 examines gender outcomes in employment, wages, and job quality as well as macroeconomic conditions in the recent period of globalization. Section 4 advances a set of feminist-Kaleckian policies to promote greater gender equity. Section 5 elucidates the "value-added" of a feminist approach to post-Keynesian theory, and Section 6 concludes.

## 2. GENDER EQUITY AS A MACROECONOMIC GOAL

The unequal distribution of income and resources, and in particular, gender inequality, is a central concern in the quest to improve well-being. This is because economic inequality can contribute to or perpetuate various forms of unfreedoms—such as discrimination, social intolerance, and lack of political power—that inhibit the acquisition of individual capabilities (Sen 1999). Freedoms are intertwined and any feminist agenda for gender-equitable macro policies would benefit from a move for simultaneous change in other arenas as well, such as the political.<sup>1</sup> The goal here, however, is more modest—to consider how the gender distribution of income, wealth, and labor might be made more equitable, understanding that greater equity in the distribution of material resources can be a fulcrum for change in other domains.

A gender equitable economy requires policies to achieve several important goals. First, equitable access to jobs is required through elimination of discriminatory employment barriers. Second, equity in earnings is needed, with both women and men able to earn living wages—wages sufficiently high to permit adults to adequately provision for their families.<sup>2</sup> Provisioning for families requires relatively secure income sources. Women are frequently breadwinners, but even when part of two-adult households, secure earnings are an important means to improve their bargaining power to negotiate for an equitable distribution of resources and unpaid labor. A further requirement is equitable distribution of state resources that close gender gaps in economic and social well-being, such as access to health, education, basic infrastructure, and other public goods, to redress market and social gender inequalities.

With these goals in mind, this paper seeks to delineate a set of macro-level policies capable of producing high-quality growth and development, where quality is defined as the capacity for policies to close gender gaps without necessarily lowering men's average well-being. This approach differs from the mainstream, which sees the goal of macroeconomic and trade policies as price stability, the elimination of barriers to trade, sustainable debt, and for the more Keynesian, full employment. That is, both mainstream and Keynesian goals are defined without a view to addressing the problem of gender inequality in well-being. Rather, policies that might promote gender equality are most often an afterthought. Further, some mainstream and Keynesian policies that promote growth actually preclude or make gender equity more difficult to achieve. Thus, it is necessary to start with the explicit goal of promoting gender

equity in well-being, and then proceed to an examination of the policy options consistent with that goal in the context of a particular economic structure and set of international institutions.<sup>3</sup>

Given this context, several questions are explored in this paper. Under what conditions can women's income be raised, while at the same time promoting economic growth? In other words, what policies can shift a profit-led export-oriented economy to one that is more wage-led? Further, how can this be done while retaining the benefits of openness that afford developing countries access to sophisticated technology that can raise productivity in the home country and validate higher wages?

### **3. THE CONTEXT: GENDERED EFFECTS OF GLOBALIZATION AS MARKET LIBERALIZATION**

An examination of the gender effects of globalization and neo-liberal policies that have led to trade and financial market liberalization is a starting point for assessing the policies for promoting gender equity. In this section, we consider the gendered employment effects of liberalization, the impact of globalization on macroeconomic performance, and shifts in the state's economic role in provision of a social safety net and in development planning.

#### **(a) Gendered Employment and Earnings Effects**

Much has been made of women's increased participation in paid labor activities over the last 40 years. These trends, though not universally observed (Antecol 2000), underscore the increased opportunities that globalization has provided for women.

##### ***Gender and job access***

Globalization has propelled women into labor markets in economies of varying structures. Semi-industrialized economies that emphasize export manufacturing have experienced a rise in the female share of employment, especially in the early phases of industrialization. Women have been largely "crowded" into labor-intensive export manufacturing, facing both explicit and implicit restrictions on their access to more skill-intensive jobs in non-tradeable fix-price industries<sup>4</sup> (Nam 1991; Hsiung 1996; Seguino 1997a; Standing 1989, 1999; Mehra and Gammage 1999; Ozler 2000).<sup>5</sup> Women provide a cost advantage to firms facing severe cost competition from other export-oriented economies. The attractiveness of female workers is also

related to the ease of shedding these workers, based in part on gender norms that relegate women's paid work to secondary importance after their reproductive responsibilities.

Over time, as semi-industrialized economies mature, the process of feminization of export employment may decline or even reverse.<sup>6</sup> In Taiwan, Hong Kong, South Korea, and Singapore—that is, among the East Asian “tigers”—as well as in Mexico's *maquiladoras*, women's share of manufacturing employment has fallen in recent years. Defeminization appears attributable to be the dual process of tight female labor markets that lead to upward pressure on female wages and the emergence of lower wage sites in Asia and Latin America. This cost squeeze has led to industrial restructuring in mature semi-industrialized economies (SIEs) with manufacturing production shifting to a greater emphasis on skill-intensive goods. It is not clear why women should be impeded from entering skill-intensive industries, as educational gaps are narrowing in many countries. One possibility is that firms prefer to invest in training for male workers, consistent with the view that men deserve the more secure employment and are less likely to leave paid work to fulfill domestic responsibilities. Women displaced from manufacturing have found employment in service jobs, which have expanded as a share of total output, such that female shares of employment have in fact declined only in the manufacturing sector (Mehra and Gammage 1999).

An exception to the trend of feminization of employment has been in those developing economies with less competitive manufacturing sectors, particularly in Africa. Trade liberalization forced these economies to reduce tariffs on imports of labor-intensive manufactures such as clothing, resulting in job losses for women who outnumbered male workers in the garment industry. Many laid-off workers have been pushed into informal employment. The evidence is not clear on whether women are disproportionately hurt by this shift from formal to informal work since male-dominated industries have also been affected. It is clear though that women as well as men have experienced income declines and increased job insecurity in the shift to informal employment, a topic that is discussed below. Apart from these exceptions, the dominant experience has been one of increased openings for women in a limited set of jobs in export manufacturing sectors.

In agriculturally-oriented developing economies that have emphasized exports of cash crops as part of their liberalization strategy, women have increased job opportunities as seasonal or contract workers or as laborers on husbands' or relatives' land in the production of export cash crops.<sup>7</sup> In some cases, such as Latin America, economic restructuring, crisis, and



globalization has led to the feminization of agriculture as women seek remunerative employment to supplement declining family income (Deere 2004). Some women have become producers of non-traditional agricultural exports (NTAEs). In Latin America and South Africa, NTAEs are often produced on large-scale enterprises, with women forming up to 80 percent of the workforce (Carr, Chen, and Tate 2000).

Finally, in developing economies that rely heavily on service exports to propel growth (such as informatics and tourism), we observe that here too women are a large share of export workers (UNDP1999; Davison and Sanchez-Taylor 1999; Freeman 2000). An additional though perhaps unintentional form of service sector export labor is that of workers who emigrate to work as nurses and domestics, remitting income to family members at home, and thus generating foreign exchange for the home economy.<sup>8</sup> The large majority of these workers are female (UNDP 1999).

Paradoxically, a number of countries also have very high relative rates of female unemployment. Unemployment data are of questionable use due to measurement problems.<sup>9</sup> However, the case of Caribbean economies is one where the data provide a more accurate picture of women's and men's job access, due to the way unemployment is measured.<sup>10</sup> Women's unemployment rates there remain almost double men's already very high rates.<sup>11</sup> Similarly, in transition economies, women have experienced declines in access to jobs relative to men (Bridger, Kay, and Pinnick 1996).

In sum, the clustering of women in export industries suggests the "feminization of foreign exchange earnings,"<sup>12</sup> as countries increasingly rely on export earnings to purchase needed imports and to service external debts. While women are preferred workers in price-elastic export industries, they continue to face difficulties in gaining access to jobs that are more secure in non-tradables industries. Further, when there are job shortages, women are sent to the back of the job queue.

### ***Gender and conditions of employment***

Employment has become increasingly flexible in the recent process of globalization as employers attempt to reduce costs (Standing 1989, 1999). A notable trend is the expanded use of women as subcontracted or home workers in manufacturing.<sup>13</sup> Ghosh (2002) provides evidence for India that the trend towards casualization, in the form of subcontracting and home production, was evident before the Asian financial crisis, highlighting the competitive pressures

amongst firms to lower costs in the context of an increasing number of suppliers (e.g., China, and post-NAFTA, Mexico) vying for access to developed country markets. The trend extends to the agricultural sector where trade liberalization has created seasonal employment in the area of agricultural exports (UNDP 1999; Deere 2004). In the case of Chilean and South African export grape industries, women are the preferred source of temporary workers and hold a small share of permanent jobs (Barrientos 2001).

This trend is due in part to the continued adherence to a “male breadwinner” bias, which slots women for insecure jobs or home work.<sup>14</sup> Men are affected by these trends as well, as the jobs they hold take on the character of women’s jobs (temporary or casual status, limited job mobility, few or no benefits), but the percentage of women in “flexible” jobs greatly exceeds that of men (UNDP 1999). For that reason, women’s increased incorporation into the paid economy is under conditions inferior to those necessary to provide them with secure income. The types of jobs they have access to constrain their ability to raise their incomes and improve their working conditions, and come at a high cost.<sup>15</sup> The seasonality of agricultural jobs, for example, implies there are no sustained improvements in women’s employment status.

### ***Gender, wages, and income***

The evidence on earnings suggests that we might well add gender wage inequality to the list of universal if not inevitable human events, along with taxes and death. This state of circumstances persists despite the feminization of labor which was predicted to portend well for women’s relative wages—rising demand for female labor should drive up their wages relative to men’s. Some studies indicate a narrowing of gender wage gaps in some countries (Tzannatos 1999; World Bank 2001; Oostendorp 2002),<sup>16</sup> although in other countries, gaps have widened (Standing 1989, 1999; Mehra and Gammage 1999; Artecona and Cunningham 2002; Berik, Rodgers, and Zveglic 2004). The case of the East Asian “tigers” is instructive. Despite rapid growth in exports that relied on female labor, gender wage gaps remain persistently large, and have worsened in some cases (Seguino 1997b).

In agricultural work, female earnings lag men’s substantially as well. The distribution of benefits in the Chilean grape industry underscores the disadvantaged position of female workers. For seedless grapes produced in 1993-94, producers accounted for 11 percent of costs (of which 5 percent went to workers), while exporters received 28 percent, importers 26 percent, and distributors 35 percent (Barrientos et al. 1999). The bargaining power of capital vis-à-vis

workers is revealed in this type of global value chain analysis, highlighting the difficulty of raising women's relative wages in this type of employment.

There are some exceptions to the negative picture we have drawn of the effect of globalization on women's relative earnings in the agricultural sector. Women's earnings have improved in some cases of NTAE production where they have access to or control over land. One such case is Uganda (Fontana, Joeke, and Masika 1998) although this enlarged area of economic activity for women does not appear to have disturbed the wide gender gap in earnings in other sectors of the economy where women's wages are roughly 40 percent below those of men (Appleton, Hoddinott, and Krishnan 1996).<sup>17</sup>

A variety of forces militate against closure of the gender earnings gap. Women in semi-industrialized economies are "crowded" in labor-intensive export industries—precisely the ones with the lowest sunk costs and which thus tend to be more "mobile." Physical capital mobility produces a "threat effect" that makes it difficult for women to obtain higher wages. Firm mobility also makes it easier for firms to appropriate the gains of productivity growth. In the case of Bangladesh's female-dominated garment industry, Bhattacharya and Rahman (1999) found, for example, that profit margins increased from 13 percent to 24 percent in the early 1990s as productivity rose, with the wage share of value-added falling.

Rodrik (1997) describes this phenomenon in terms of a flattened labor demand curve, made more elastic by the emergence of alternative labor supplies beyond the domestic economy. Workers bear the costs of increased capital mobility in the form of lower wages. Seguino (2000b) finds evidence of this effect in the case of Taiwan where the gender wage gap widened in the period 1982-90. The increase in total FDI (the absolute value of the sum of inward and outward FDI), which reflects greater firm mobility, appears to have weakened women's relative bargaining power.<sup>18</sup>

A second phenomenon that inhibits closure of the gender wage gap is the informalization of labor contracts through the process of subcontracting and outsourcing. Workers in these arrangements, as noted, are largely women. Because of their unstable work arrangements and isolation, they face greater difficulties in bargaining for higher wages than formal sector workers. There is evidence that wages in this type of employment are significantly lower than for workers similarly employed in the formal sector (Roh 1990; Kabeer 2000; Balakrishnan 2002). The gender wage gap is thus probably even wider than the official figures imply, because wages of home workers often go unrecorded in official surveys. Further, low wages in this

sector are likely to hold down wage gains for women employed in other sectors that provide residual employment.

There is some evidence that gender wage inequality is functional to growth with gender gaps in earnings positively related to growth rates of GDP in SIEs where women are segregated in export manufacturing industries (Seguino 2000a, 2000c).<sup>19</sup> Under those conditions, efforts to close the wage gap without countermeasures to offset the negative effect on export demand will slow growth, putting gender equity and economic growth at odds. In light of all these factors, evidence of rising profit shares of income in numerous economies is not surprising. Thus an important effect of globalization is a redistribution from labor to capital as economies become more profit-led.

### ***Effects on gender inequality in leisure and caring labor***

Theoretically, job access for women can improve their level of well-being and that of the children they care for—if this provides more income, and if women can find a way to juggle their care responsibilities (or if men take on more unpaid care work). Time use data are sparse, and in particular, trend data are lacking. What little evidence is available suggests that women's time burdens have increased with globalization. Further, studies such as Floro (1995) indicate that the time intensity of women's labor has increased. Men's performance of unpaid labor does not appear to have increased enough to compensate, suggesting a decline in female leisure.

To date, there is little research that examines the long-term effects on women's well-being and empowerment of their increased employment access. Are there measurable effects that show up in measures of well-being or household bargaining power? We need to answer this question in order to determine whether economic and trade liberalization provide the conditions for women to achieve equitable standards of living and power with men over time, even if women's incorporation into the labor force in the short term is under unfavorable—and indeed exploitative—conditions.

Some studies find that as women's access to outside income rises, they are better able to renegotiate the distribution of resources within the household to the benefit of themselves and their children. The source and stability of that income appears to play a role in influencing women's bargaining power. For example, Kabeer's (2000) study of Bangladeshi garment workers found that women employed as home workers with insecure and intermittent earnings

were less able to renegotiate their position in patriarchal households than women with higher and more stable earnings.

One study considers these questions for Asian economies where rapid growth was fueled by low-cost female labor in a period of otherwise global economic stagnation (Seguino 2002a). A variety of well-being indicators suggest there has been some closure of gender gaps in quality of life, but those countries that have improved the most were the slowest growing in the region and the least successful as “open” economies. In the case of South Korea, a disturbing trend has been the declining ratio of females to males in the population. This measure can be viewed as an indicator of society’s valuation of women. Women’s access to paid employment has apparently not resulted in sufficient leverage to alter gender perceptions that devalue women. This result leads to the question of whether the conditions under which women are incorporated into the paid economy are adequate to eventually transform conditions of gender inequality into gender equity.

#### **(b) Macroeconomic Effects of Globalization**

The macroeconomic effects of globalization on gender equality can be subdivided into two categories: 1) demand-side effects and 2) the shifting role of the state. These are discussed in turn.

##### ***Demand-side effects***

In the context of globalization, external factors increasingly determine the level of output and employment, while the importance of domestic demand is lessened. Trade liberalization raises the share of exports and imports in demand. Further, investment liberalization that facilitates inward and outward foreign direct investment (FDI) requires domestic economies to compete with conditions, including labor costs, in other countries.

These changes alter the relationship between income distribution and growth. In particular, as external factors have a larger effect on aggregate demand, economies are more likely to become profit-led—redistribution to profits raises output and employment (You 1989; Bhaduri and Marglin 1990). This is because higher wages, once a benefit in the form of a demand-side stimulus in more closed economies (assuming spending out of wage income exceeds spending out of profit income), now have a potentially negative demand-side effect on

exports and investment demand. This negative effect is based on an assumption that wage increases do not affect labor productivity.

Thus, while liberalization may result in a demand-side stimulus if exports and investment rise, this can only occur if wage growth is constrained, particularly the wages of those employed in “mobile” export industries. Women are more adversely affected as they tend to be disproportionately concentrated in industries where vertical FDI dominates. Vertical FDI, as compared to horizontal FDI, implies production for export rather than sale to the domestic economy. Vertical FDI implies the firm goal of taking advantage of differences in factor costs among countries, concentrating labor-intensive activities in those countries with lower labor costs (Kucera 2001).<sup>20</sup>

Financial market liberalization can also produce negative demand-side effects. Four effects are especially important for gender relations: 1) balance of payments difficulties, 2) constraints on use of monetary policy, leading to slower rates of growth, 3) increased economic volatility, and 4) reduced latitude for use of fiscal policy as a stabilization tool. Regarding the first, the inflow of financial capital raises the demand for imports. If inflows are too rapid, inflation and exchange rate appreciation may result, leading to balance of payments difficulties, particularly if inflows are directed toward non-productive expenditures such as luxury goods and real estate speculation. The result may be a contraction of aggregate demand. Beyond the short-run effect of balance of payments difficulties and tendencies toward stagnation, in the longer run, sustaining a trade deficit causes external debt to build up, leading to capital flight and a financial crisis if it becomes seen as unsustainable (Bhaduri 1999).

Second, financial liberalization can contribute to a decline in growth rates. Liberalization permits investors to cross borders to seek out the highest rate of return on financial instruments, leading monetary authorities to raise interest rates in an effort to establish credibility with financial markets. The cumulative effect is that globally, interest rates have been ratcheted upward and are historically high (Eatwell 1996; Felix 1998).<sup>21</sup> High interest rates, it is argued, have contributed to a slowdown in economic growth and employment generation. A further effect of financial liberalization is economic volatility, as seen in the 1990s. Financial panics, more common in the age of elimination of capital controls, can lead to rapid capital outflows, sharp declines in asset prices, bankruptcies, and recession as evidenced by events in Mexico in 1994 and Asia in 1997.

Finally, because fiscal deficits are interpreted by financial markets to be inflationary, governments are constrained in their policy instruments for stimulating output and employment. Deficit spending increasingly becomes difficult to manage without precipitating a capital outflow, to which countries respond by raising interest rates. The pressure to reduce state spending is increased as footloose capital gains increased leverage to bargain for lower tax rates as a condition of investment (Tanzi 1995; Poterba 1997).<sup>22</sup> If spending levels are to be maintained, taxes must be borne by the immobile factor, labor, while taxes on the mobile factor fall. Thus, there is a tendency toward reduction of government spending, and a redistribution of the burden of that spending from capital to labor (Wallerstein and Przeworski 1995). In sum, the traditional tools of fiscal and monetary policy are constrained by financial markets that veto budget deficits and demand high interest rates.

The net effect of these processes has been a slowdown in economic growth globally (Maddison 1995). These demand-side pressures that produce a deflationary bias have made it difficult for countries to overcome chronically high rates of unemployment.

Because women are more likely than men to be unemployed, the difficulties of stimulating growth and employment in open economies weigh more heavily on them. It thus appears that a major vehicle for improving gender equity—increasing women’s relative access to jobs—is increasingly unobtainable in the era of globalization. Moreover, the gender effects of financial crises have been well-documented. Lim (2000) and Singh and Zammit (2002) note that in some Asian countries (Indonesia and South Korea), women were the first to lose their jobs during the financial crisis. Women thus not only provided the unpaid work that was critical to family and community survival, but also bore a disproportionate increase in unemployment.

### ***The shifting role of the state***

Economic and trade liberalization have contributed to restrictions on state intervention in the economy in two important arenas (in addition to demand management policies discussed above)—the provision of a social safety net and the reduction in tools required for states to promote development and productivity growth.

Reduction in the provision of social services is related to the pressure on states to eliminate budget deficits. This pressure, as noted above, is due to financial market liberalization, stabilization and structural adjustment policies, and declining corporate tax contributions. Of course, even prior to the current period of liberalization, entitlement programs to a greater or

lesser degree differentially benefited full-time workers—mainly males. Temporary or part-time workers, and those who spend time in unpaid labor—largely women—have had less coverage.

This problematic has been exacerbated by cuts in social expenditures such as health care, education, food, and housing subsidies and the imposition of user charges for public services which low-income women especially have relied on for ensuring the health and educational needs of children.<sup>23</sup> As a result, women, who act as the economic “shock absorbers” face increasing demands on their time with labor effort rising to maintain family well-being in order to accommodate the decline in public services.

The ability of states to intervene in the development process to promote higher value added production activities has also narrowed. Countries have been under pressure to privatize domestic industries and to relinquish the tools of industrial/agricultural policy. This trend has been accompanied by trade and investment agreements (institutionalized in the WTO) which require governments to liberalize trade, drop preferential treatment of domestic firms, and allow unrestricted foreign direct investment. These conditions make it increasingly difficult to pursue policies that would support domestic producers, providing them with the resources needed to move up the industrial ladder to more skill-intensive goods production where prices are more inelastic and which are not facing declining terms of trade.<sup>24</sup> Further, a number of countries have made central banks independent of government, limiting their ability to use preferential lending as a means to support the growth of strategic manufacturing, service, or agricultural industries.

In agriculturally-based economies, such as a number of African economies, investment is public sector-led. Public sector spending on infrastructure can “crowd in” private sector spending, acting as a stimulus to productivity growth, due in part to market failures where farmers lack access to resources, such as credit and training. Constraints on public investment have gendered effects in a number of African economies, where women comprise the bulk of farmers. Cuts in infrastructure investments and restrictions on the use of formerly public resources owing to privatization has led to an increase in women’s unpaid labor burden, inhibiting their participation in paid activities.<sup>25</sup> Further, agriculturally-based economies, wedded to the production of export commodities with falling terms of trade, require government investment to improve the productive capacity of small, largely female farmers in order to raise income.



In sum, then, while the structural conditions of semi-industrialized and agricultural economies differ, they share a reliance on export goods for which the terms of trade are worsening, and the decreasing ability of the state to use tools of industrial or agricultural policy due to pressures to privatize and reduce government spending.

#### **4. FEMINIST MACROECONOMIC POLICIES TO PROMOTE GENDER EQUITY**

The challenges to the achievement of gender equity in the context of globalization can be summarized as follows. With trade liberalization, some women in developing economies have had expanded access to employment, improving short-term incomes. For paid work to raise women's status, however, it must provide a secure income and rising wages relative to men's. But females are concentrated in unstable, low paid dead-end manufacturing jobs—a phenomenon mirrored in service and agricultural sectors of developing economies (UNDP 1999; Barrientos 2001). Thus, the types of jobs that many women hold, particularly those in export sectors, do not possess the characteristics that would allow them to achieve equity.

The contradiction is that while women's low wages motivate employers to hire them, attempts to raise wages lead to a decline in employment as firms relocate production. Increases in productivity might ratify wage hikes, but firms are not pressured to raise productivity because wages are so low. Wage hikes cannot stimulate improvements in productivity since the mobility of firms makes it difficult for efficiency wage effects to emerge. Further, these jobs tend to be flexible, reducing the incentive for employers to invest in worker training.

The insecurity of jobs that women hold can, in theory, be offset by appropriately designed social safety nets. The goal of gender equity would be further assisted by full-employment policies and a reduction in economic volatility. These conditions are not met in the current environment due to constraints on public spending and financial liberalization that have resulted in slow growth and an increase in the variance of output and employment.

Given this context, what macro-level policies should feminists advocate to promote equity in the medium- to long-run? First, such a policy framework should include promotion of the type of development consistent with full employment and in which economies are wage-led with rising productivity. By full employment, we refer to the absence of involuntary unemployment and involuntary part-time or informal employment. Our usage of the term full employment differs from the standard usage, which often ignores unpaid labor, as well as the

level of pay.<sup>26</sup> It would not be ideal to promote full employment (i.e., the eradication of unemployment and underemployment) without a concomitant increased sharing of unpaid labor by men, so that women's access to paid work could be offset by a reduction in unpaid labor. Second, by wage-led growth, we refer to the set of structural, policy, and institutional conditions in which a redistribution to wages from profits is a stimulus to growth.

Full employment that produces labor shortages can make it easier for women to access employment in male-dominated industries that pay higher wages, facilitating job integration and narrower wage gaps. The movement toward full-employment also helps to put upward pressure on women's wages by tightening labor markets. For this strategy to work, however, economies must be wage-led—that is, redistribution to wages must be a stimulus to output and growth, thus ratifying higher relative female wages.

#### **(a) Income Distribution and Growth**

The promotion of full-employment wage-led growth in open economies is in essence a problem of the relationship between income distribution and macroeconomic outcomes, explored in recent years by neo-Kaleckian economists.<sup>27</sup> In these models, some components of aggregate demand are a function of the distribution of income and the models explore the macroeconomic conditions necessary for redistribution from profits to wages (via, for example, a higher minimum wage or increased worker bargaining power) to stimulate output and growth.

While most neo-Kaleckian models are not gendered, it is possible to engender these models by incorporating gendered patterns of labor supply and demand. One way this can be done is to model labor supply to economic sectors as segregated along gender lines, reflecting women's greater responsibility for care activities as well as the tendency to segregate women in labor-intensive export activities in the productive sector.

Macro models that recognize gendered job allocation give some insight into the conditions required to make higher wages compatible with growth. Blecker and Seguino (2002), for example, model output and growth in an export-oriented semi-industrialized economy. In this two-sector model, female labor is used to produce export goods and male workers are concentrated in the nontradables sector (The model does not consider the care economy). Higher relative female wages could stimulate aggregate consumption (assuming female workers have a higher propensity to consume than capitalists), thereby producing a demand-side stimulus. But those higher wages will also cause export prices to rise, in which case export demand declines.

Alternatively, higher wages will squeeze profits in that sector, resulting in a decline in sectoral investment. This is especially likely in labor-intensive industries in which “footloose” firms find it easier to relocate to lower-wage sites. The negative demand-side effect of higher female wages on exports and investment is likely to be larger than the potential consumption stimulus, especially if exports are price elastic. As a result, higher female wages in such an economy are deflationary.

### **(b) State-Level Development Strategies**

Given these constraints, state-level policy can be used to attenuate the deflationary impact of higher female wages. This can be partially achieved by incentives to firms to shift the production mix in female-dominated labor-intensive industries produce exports with a low price elasticity of demand (e.g., where quality matters). Higher female wages in that case reduce the negative effect on export demand. Further, in economies that are articulated, that is, where export goods are also domestically consumed, higher female wages may stimulate consumption demand, offsetting the decline in export demand. Both of these possibilities imply the need for an industrial/agricultural development strategy to promote both articulation and an export product mix that permits rising female wages without a (large) negative effect on exports.

To make gender equity compatible with growth in an open economy also requires boundaries on the behavior of firms, and in particular, limits on physical capital mobility (inward and outward FDI). Policies to slow the speed at which firms “run” from higher wages allows for the possibility that wage hikes can stimulate productivity growth, either because firms make greater efforts to achieve efficiency by investing in technological improvements, or because workers are induced to be more productive as a result.

In the first case, incentives structures that force firms to respond to higher wages by investing in technological improvements cause investment to *rise* rather than fall as wages rise, thus producing a demand-side stimulus.<sup>28</sup> There may be limits on the effectiveness of this type of policy in labor-intensive industries in which women are employed, given that technological frontiers will eventually be reached, thus prohibiting firms from further overcoming higher wage costs with technological improvements. Nevertheless, evidence from a number of semi-industrialized economies suggests that there can be a positive wage-investment-productivity nexus over some range of wages and technological level.

Absent a positive effect of wages on investment, efficiency wage effects of higher wages may emerge when FDI is less mobile. This implies that unit labor costs stay constant and may even fall when wages rise.<sup>29</sup> In this case, competitiveness is not hampered by higher wages, and export and aggregate demand do not fall. Inward FDI might also be restricted to strategic industries and excluded from others for some period of time, giving domestic firms the opportunity to gain competitiveness, with the state using its leverage to assist firms to raise productivity in response to higher wages.

Managing FDI is possible, even in a globalized economic environment. As Chang (1998) notes, multinational corporations are willing to accommodate restrictive policies so long as changes are predictable and announced in advance. Moreover, FDI tends to be influenced by the political and economic climate, the quality of the government bureaucracy that implements policy, and financial and exchange rate policies. Policies that stabilize the economy, including capital controls that act as speed bumps, can reduce volatility and may attract FDI.

Portions of the strategy outlined here have been effectively implemented in several countries. South Korea, for example, has successfully moved up the industrial ladder, relying heavily on state intervention. It used a variety of tools to discipline and support “immobile” domestic firms to increase their productivity as they moved into targeted strategic industries (FDI was greatly restricted). Firms that wanted access to government subsidies and other benefits were required to increase exports. With rising wages and limited mobility, the only alternative to escape the profit squeeze was for firms to raise productivity, even in labor-intensive industries where the potential for productivity gains was thought to be limited. The result was a rise in wages that stimulated investment and productivity growth (Seguino 1999-2000). As a result, employment expanded even as wages rose. Singapore, a country with a much larger share of FDI in investment, also attempted to raise wages in the mid-1980s. The goal was to stimulate multinationals to shift to more capital-intensive production methods and to thereby raise productivity. This would have ratified wage increases, but this effort failed due to the mobility of firms, many of which simply relocated to lower cost sites in Asia (Huff 1995).

South Korea’s strategy was built on the premise that state intervention is required to stimulate productivity and to move the economy into higher value-added industries.<sup>30</sup> This strategy is time-consuming for private firms to underwrite without government support, and thus is otherwise unlikely to be undertaken. These policies were accompanied by state investment in education, technology, and support of research and development—public sector spending that

“crowded in” private investment, raising profitability by increasing productivity. Restrictions on FDI made it easier for the state to discipline as well as reward firms, and to nurture domestic capital, with pressure on these firms to share their gains with workers in the form of higher wages.

None of these conditions implies the need to close the economy to trade and investment, but they do highlight the importance of managing these, a policy approach that we could label “industrial policy under conditions of strategic openness”—openness that is managed to achieve specific development and growth goals that serve the broader goal of achieving gender equity.

Industrial and agricultural development policies would have to be accompanied by compatible monetary policies. Because low wages for women substitute for currency devaluation, a crawling peg that adjusts for rising female wages can offset the negative effect on aggregate demand in cases where devaluations are not contractionary. Devaluations also close the gender wage gap in that real male wages fall (since some consumption goods are imported and are now more costly).<sup>31</sup> This topic has been relatively unexplored, but here we point to the importance of incorporating gender equity goals in the formulation of monetary policy.

In sum, for a country to reorient export and investment to support equity with growth requires an expanded role for government in managing economic outcomes. This is particularly the case with regard to assisting or prodding domestic firms to move into the production of more price inelastic export goods or services, and using investment and trade policy to encourage articulation. There are a variety of tools at the disposal of the domestic economy to promote greater equity. These include the use of state policies to promote technology acquisition and educational attainment; the use of fiscal resources to provide a more equitable social safety net for women; public investment in infrastructure that reduces women’s time spent in unpaid labor; and legislation that facilitates male participation in caring labor. Minimum wages and labor standards can also improve women’s wages and working conditions, including those in informal employment. These strategies need to be coupled by technical support to small and medium sized businesses to raise productivity.<sup>32</sup>

### **(c) Collective Action at the International Level**

There are a number of external constraints that would need to be overcome as well in order to achieve higher rates of growth induced by rising wages and productivity. The poorest countries have the weakest power vis-à-vis multinationals because their enticement is primarily low

wages. Bargaining strength of these countries may be enhanced by regionally coordinated industrial policies. For example, the Caribbean has a locational advantage as a tourism destination, but many of the benefits of this type of activity flow to multinational tourism firms. A coordinated Caribbean tourism policy would allow countries to collectively bargain for higher regional wages and greater backward linkages to local economies, for example, in local sourcing for food purchases. Without a locational advantage with which to bargain, it may be that poor countries are constrained to permit inward FDI that capitalizes on low wages.

Second, a change in policies and rules emanating from the World Trade Organization (WTO) and trade agreements is needed to permit special and differential treatment for developing countries that allow the use of national-level tools to influence the direction and rate of economic growth. These include support for strategic industries, protection of infant industries, and implementation of rules on foreign direct investment beneficial to domestic firms and productivity growth.<sup>33</sup>

The achievement of gender equality is also dependent on demand expansion in industrialized economies which, however, has slowed appreciably since the 1970s. Further, income inequality has risen in those economies, suggesting an additional demand-side constraint on the growth of developing economies. While open economies are more likely to be profit-led, the global economy can be viewed as a closed wage-led economic system. The declining income of those at the bottom of the distribution in industrialized economies has reduced demand for manufactured or primary commodity exports from developing economies—goods that higher income groups are less likely to consume. To rectify this, redistributive policies in the north coupled with coordination of expansionary macroeconomic policies could stimulate northern demand for southern goods, thus permitting greater growth of (female) wages in the south.

## **5. ARE WE ALL (POST-)KEYNESIANS NOW?**

The feminist-Kaleckian macroeconomic analysis advanced here shares a great deal with post-Keynesian perspectives: the recognition of imperfect markets, an “arthritic” invisible hand, the central role of the state in managing an otherwise unstable economy, and chronic excess capacity. Feminist analysis distinguishes itself, though, by linking income inequality to output and growth, à la Kalecki, but via the gender distribution of income—between classes and within

classes. Further, attention to gender expands the intellectual vision to include the unpaid economy. Women's responsibility for this unpaid work, feminists argue, is a source of their relative lack of bargaining power within the paid economy. Class inequality might be reduced by a redistribution of income, but gender equity requires more extensive conditions (including, but not limited to, greater access to jobs that pay high wages) for an equitable distribution of power to obtain within the household. Thus the sites of inequality are dual, lying within the unpaid as well as the paid sector.

In this paper, we link gender inequality to economic structure, and suggest that achieving greater equality requires a structural shift from an export-dependent low-wage economy to one in which the production mix and policy shifts such that female wages are a stimulus to output and employment. That is, a key to overcoming the profit-led character of developing economies is to lessen reliance on cheap female labor, which currently serves to relax the balance of payments constraint.

Many policy prescriptions advanced here are echoed in the post-Keynesian literature—controls on financial capital, the developmental state, fiscal and monetary policy to pursue full employment, greater reliance on domestic demand (Pollin 2002). To this, feminist-Kaleckian approaches add a broader understanding of power and wage determination. Further, this analysis underscores that without targeted policies—in labor markets, industrial and agricultural development strategies, and in provision of a social safety net and other policies to support caring labor—gender-blind post-Keynesian policies may reduce male class inequality but are likely to leave intact gender inequality. Thus, as we argue here, redistributive macroeconomic policies and development strategies, to be successful, must take account of gender.

## **6. SUMMARY AND CONCLUSIONS**

How do we raise women's well-being in export industries while at the same time promoting economic growth? This paper presents an answer to that question, arguing for a heightened role for the state in managing the economy in controlling physical and financial capital flows, and setting industrial or agricultural policy. Country-specific development policies will differ depending on the structure of the economy, the nature of gender employment segregation, and human capital differences. Nevertheless, the basic goal is to provide a policy framework that: 1) allows productivity to rise in female-dominated industries; 2) promotes strategic industries

which can afford to pay high wages to workers; and 3) allows pursuit of full employment through demand-side management policies.

In this context, macroeconomic policies could include restrictions on physical capital mobility in a way that constrains firms to upgrade rather than run from higher wages. A non-exhaustive list of corollary policies include state-level investments in education and health that are gender-enabling, expenditures that permit women and men to combine paid and unpaid work, capital controls, and gender-sensitive monetary policy.

It seems a radical notion to propose increased state intervention in the economy at a time when political pressures are in the opposite direction. It seems even more unlikely that individual countries, especially small, poor countries, will be able to effectively challenge the winds of economic and trade liberalization. That said, there is no need for those concerned with economic and social equity to be paralyzed into inaction. Action at home to encourage debate on gender equitable proposals is the first step in stimulating debate beyond domestic borders. This may eventually lead to broad consensus at the international level, be it within international bodies or in regional organizations.

These proposals, if they achieve the desired results, would fundamentally alter power relations. They stand in opposition to current trends that limit the possibility for increasing women's bargaining power. Nevertheless, the improvement in women's status—now an internationally-recognized Millennium Development Goal adopted by 170 governments—has the potential to alter unequal gender relations and may be met with resistance. That conflict can be lessened if the economic pie is expanding so that women's access to resources does not come solely from a reduction in the material resources going to men. We can also hope that gender norms and stereotypes change along the way such that economic goals include a greater emphasis on the achievement of well-being for women and the families they care for.



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## NOTES

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<sup>1</sup> This paper does not deal directly with change in other arenas, especially the political. On the role of greater equity in the distribution of material resources to promote gender equity, see Rae Lesser Blumberg (1988). For further discussion of the notion of people-centered development, as this approach is frequently called, see UNDP (1997) and Elson and Cagatay (2000).

<sup>2</sup> In the case of self-employment, including on-farm employment, we imply the need for gender equity in access and control over income.

<sup>3</sup> Elson and Cagatay (2000) label this the “transformatory” approach insofar as the goal of policy is to alter a given set of gender relations and distribution of resources to promote greater equity.

<sup>4</sup> It is useful to think of the nontradables as fix-price industries where goods are priced with a fixed mark-up over unit costs due to oligopolistic structure and chronic excess capacity. The tradables sector is analogous to a flex-price market, where prices are set with a flexible mark-up that responds to changes in the real exchange rate. An important gender difference is that goods produced in the nontradables sector also have lower price elasticity of demand than export goods, due to relatively fewer substitutes.

<sup>5</sup> The feminization of labor in the manufacturing sector may be a developing country phenomenon. Kucera and Milberg (2000), for example, find evidence of declines in female share of manufacturing employment in a number of industrialized economies in response to increased north-south trade. That is, women employed in the formal manufacturing sector in the north have been displaced in response to increased trade with southern countries that are more intensively using women in labor-intensive industries.

<sup>6</sup> It would be interesting to explore the process of defeminization and whether the rate of defeminization has been lower in some countries (i.e., South Korea) than in others. This has implications for trends in the gender wage gap.

<sup>7</sup> Countries that export unprocessed primary products (e.g., ores) do not fit the stylized facts that we present here. First, exports have not expanded as a share of GDP to the extent they have in other developing economies. Also, these industries tend to be male-dominated, such that any expansion of output is likely to benefit male workers in employment and wages (Fontana 2002). Liberalization has, however, had negative effects on women’s employment and income in these economies, in part through loss of manufacturing jobs, but also due to pressures on the state to reduce expenditures, resulting in a disproportionately large loss of female jobs.

<sup>8</sup> The sex trade is also one of the fastest growing and most profitable service industries; see Williams (1999).

<sup>9</sup> Moreover, unemployment data are of limited significance in low-income economies where the majority of the population engages in some form of economic activity—usually informal employment or self-employment.

<sup>10</sup> For a description of unemployment measurement in several Caribbean economies, see Seguino (2004).

<sup>11</sup> This occurs, despite the reliance on service exports to fuel growth in the region. Evidence indicates that during economic upturns the gender gap in unemployment rates widens as men are hired first, suggesting that capital’s preference for cheap labor is mitigated by patriarchal norms that give men first access to jobs (Seguino 2004).

<sup>12</sup> This phrase is from Samarasinghe (1998) in reference to trends in Sri Lanka. It is clearly, however, a process that extends beyond Sri Lanka to many developing economies.

<sup>13</sup> On this topic, see Fernandez-Kelly and Sassen (1993), Carr, Chen, and Tate (2000), Sayeed and Balakrishnan (2002), and Balakrishnan (2002).

<sup>14</sup> This bias results in women being treated as though their earnings are supplementary while men are assumed to have the right to jobs whose pay is regular and where there is upward mobility.



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<sup>15</sup> In agriculture, health hazards associated with working with chemical pesticides further dampen the positive employment effects (Dolan, Humphrey, and Harris-Pascal 1999; Thrupp, Bergeron, and Waters 1995). Some recent studies note that some progress has been made on labor conditions and on women's empowerment (Newman 2000; Stephen 2000). Nevertheless, work conditions are relatively harsh and prospects for advancement are limited.

<sup>16</sup> Oostendorp (2002) finds evidence of declining gaps in wages within occupational categories in tradables industries, but not in nontradables, based on data from the ILO October survey, noting, however, the extensive problems with this data set that makes it "one of the least-used sources of cross country data in the world" (2002: 5). These data weaknesses and the standardization procedure used to convert earnings to monthly wages raise questions about the reliability of the results.

<sup>17</sup> A second case of women's increased earnings from, NTAEs is Vietnam. Trade liberalization and a reduction in government subsidies for modern health care (Sowerine 1999) led to increased demand for medicinal plants. This has had a positive effect on women's income since they are dominant along the chain of production of medicinal plants. Again, however, this partial equilibrium perspective is overshadowed by broader evidence suggesting that gender inequality has increased in Vietnam (Long et al. 2000).

<sup>18</sup> This result differs from industrialized economies such as the U.S. where men have been concentrated in import competing industries, such as autos and steel, and have also faced "threat effects" of corporate relocation. Since men were disproportionately employed in these industries, the result has been a narrowing of the gender wage gap but in a gender conflictive sense, whereby men's wages have fallen significantly and women's have risen slightly (Mishel and Bernstein 1999). Black and Brainerd (2002) attribute this to increased trade competition which forces firms to give up their discriminatory hiring practices to employ female labor, thus driving up women's relative wages. Kongar (2004) contradicts this explanation, instead attributing the narrowing gender wage gap in concentrated U.S. industries to firms' ability to extract wage concessions from male workers, at the same time laying off female workers in low productivity occupations, thus raising the average wage of remaining female workers. Import competition and the decline of job opportunities for males thus resulted in a greater supply of males willing to work for lower wages, thereby decreasing the cost of discrimination. These results imply a relative decline in female manufacturing employment, a finding consistent with Kucera and Milberg (2000).

<sup>19</sup> Some recent studies show, however, that when gender equality is measured in terms of education, equity stimulates growth (Hill and King 1995; Klasen 1999; Dollar and Gatti 1999). The causal mechanisms are several. Gender inequalities in education and access to other productive resources create inefficiencies. Further, women's greater education enhances household bargaining power that can improve children's access to resources, thus enhancing the quality of the future labor supply and economy-wide productivity. These results are not necessarily inconsistent with Seguino (2000a and 2000c) whose empirical analysis is focused on the short- and medium-run. Increase in female education relative to men can raise their relative productivity. But if women lack the bargaining power to translate that productivity into higher wages, unit labor costs and thus export prices fall and/or firm profits rise. Employers and foreign buyers thus appropriate gains in women's education.

<sup>20</sup> Conversely, horizontal FDI is motivated by the desire to gain access to a domestic market to avoid import restrictions or local content requirements, or reduce transport costs. In such a case, labor costs have a smaller negative effect on inward FDI.

<sup>21</sup> Proponents of liberalization argue that efficiency is promoted as investment funds flow from surplus economies, where marginal rates of return are low to economies with higher marginal productivity of investment, thereby stimulating investment and growth worldwide. Felix (1998) challenges this view, arguing that higher interest rates dampen investment and slow economic growth, and economic inefficiency.

<sup>22</sup> This occurs between countries and within countries, such as the United States where individual states compete for investment by lowering corporate tax burdens.

<sup>23</sup> Elson and Cagatay (2000) note also the trend to commodify state-based entitlements, with health, retirement, and education pushed into the market realm, available to those whose incomes are sufficient to cover the costs.

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<sup>24</sup> While agricultural and semi-industrialized economies differ structurally, there are some commonalities related to their susceptibility to external factors, according to Erturk (2001-02). Semi-industrialized economies are attempting “immiserizing growth” which results from over-reliance on low-tech manufacturing goods that have taken on the pricing characteristics of primary commodities—that is, with declining terms of trade. The emergence of new producers of these homogenous goods had led to a crisis of overproduction, causing export prices to fall. This has led to competitive devaluations and pressured firms to lower costs or relocate to lower wage sites.

<sup>25</sup> These unpaid labor burdens are costly in terms of foregone income. For example, in Tanzania, a reduction of women’s time burdens in providing basic commodities to their households was found to raise cash incomes 10 percent, labor productivity 15 percent, and capital efficiency 44 percent on smallholder farms (Blackden and Bhanu 1999).

<sup>26</sup> We are grateful to Nilufer Cagatay for this point.

<sup>27</sup> See Blecker (2002) and Setterfield (2003) for excellent reviews of research in this area.

<sup>28</sup> Evidence of a positive relationship between wages and investment can be found in a variety of contexts. See, for example, Seguino (1999-2000) on South Korea, and Marquetti (forthcoming) for a variety of industrialized countries.

<sup>29</sup> If unit labor costs stay the same, of course, then this is not a case of wage-led growth in the classic demand-driven sense. But it is wage led in the supply side sense, whereby higher wages stimulate productivity improvements, attenuating any negative demand side effects that might result from a decline in profits.

<sup>30</sup> For further discussion of this strategy and the theory behind it, see Amsden (1998).

<sup>31</sup> There are constraints on the effectiveness of exchange rates to lead to a closure of the gender wage gap, however. Currency devaluations can be inflationary in economies in which imports are rigid and are a large share of GDP. This can dampen export demand, and will lower women’s real wages. Further, financial markets may respond negatively to anticipated inflation in response to a currency devaluation, leading to rising interest rates, bankruptcy, and deflation. Thus women may gain in terms of higher wages relative to men, but they may also suffer employment losses so that the female share of the wage bill falls. Also, unless supply schedules are elastic, it may be difficult to shift resources to the export sector. For more on the limits of devaluation to promote output growth, see, for example, Panic (1998).

<sup>32</sup> Higher minimum wages may be beneficial, even in open export-oriented economies (Rama, 2001; Saget 2001). Rama (2001) found, for example, that a doubling of the nominal minimum wage in Indonesia in the early 1990s resulted in some negative effects on employment. While large firms saw employment rise, small and medium firms experienced declines in employment, which may be a result of their inability to respond to higher wages with productivity-increasing measures.

<sup>33</sup> Many would agree that a shift in the IMF policy framework is also required to permit developing countries to manage financial capital flows, thus allowing domestic interest rates to fall. In addition, an end to the IMF’s push for contractionary policies in response to balance of payments crises as a way to slow imports is needed. Further, the emergence of an international lender of last resort in times of balance of payments crises would reduce pressures on domestic economies to maintain high levels of reserves and interest rates that slow growth. These stances have been broadly discussed, but the engine of change in this case seems to rest more on political power than economic analysis.