

Gender and Economics: An Overview

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1st observation

- The World Bank has some of the best material on:
 - Gender and economics
 - How to integrate gender into poverty reduction strategies
- Best empirical work reported on the World Bank website: see, for example, Klasen (1999) on the impact of gender differences in education and employment on economic growth
- The most succinct case for taking gender seriously is “The Business Case for Mainstreaming Gender” in *Integrating Gender into the World Bank’s Work*, 2002
- The best overall summary of the evidence is:
- *Engendering Development: Through Gender Equality in Rights, Resources and Voice*, 2001

2nd observation

- Gender equity does not require justification.
- Gender equity is a developmental goal in itself to which the world is committed.
- This is reflected in specific MDGs
- It is *inequality* that requires explanation and, if it is allowed to continue, justification.

Objectives

1. Suggest some reasons why economics has, until recently, been curiously uninterested in gender equity as normally understood
2. Present a set of presumptions from *economic theory* suggesting the relevance of gender for reasons of economic *efficiency* and *growth*
3. Present range of evidence supporting these theoretical presumptions

Why has economics been uninterested in gender (in)equality?

- Economics has traditionally distanced itself from questions about the equity of *any* initial distribution of resources or the outcomes which follow from it
- Economics has traditionally been interested in a different space or dimension – choice and efficiency
- The observed outcomes are inferred to reflect choices
- As choices they are, in a special sense, welfare optima
- In addition, under certain conditions they are, in a special sense, efficient.

Efficiency

- Efficiency requires the ‘right’ person in the ‘right’ job producing the ‘right’ good or service.
- Q: What do we mean by ‘right’?
- A: That allocation which maximises society’s welfare (relative to the initial distribution) by balancing at the margin the benefits to society against the costs of any activity so that no one can be made better off by any re-arrangement of inputs or outputs without someone else being made worse off
- Q: What process will achieve this allocation?
- A: The operation of competitive product and labour markets

How is this achieved?

- Market determine prices according to the balance of demand and supply. Society's valuation of the good or service is reflected in what people are willing to pay (demand), which is equated at the margin to the costs of production (supply).
- Prices provide:
 - A signal of relative scarcity
 - An incentive
- Agents move resources (including labour) towards those products which generate the highest return

In other words...

“It is not from the benevolence of the butcher, the brewer or the baker, that we expect our dinner, but from their self-interest. We address ourselves not to their humanity but to their self-interest...”

Adam Smith (1776) *An Enquiry into the Nature and Causes of the Wealth of Nations*, Book 1, Chapter 2

Note:

- This argument *requires*
 - that an agent be able to follow their self interest
- But the pursuit of self-interest alone is insufficient
- Self interest must be constrained by competition to be within the set of socially valuable activities. This *requires*
 - All other agents must be able to pursue their self-interest to an equal degree

(Some) conditions necessary for competitive markets

- All agents must have sufficient, equal access to *information* to operate effectively in the public sphere of markets
- All agents must have sufficient, equal *freedom to act* on this information
- This includes equal *control of resources* and access to further resources
- Agents must face the same *common prices* to guide their decisions

The importance of Gender in this framework

- If *all* agents *do not* have access to and control of resources on the same terms at the same relative prices –
 - Price signals will not properly reflect real scarcities
 - Price signals will not provide appropriate incentives
 - Agents will not be able to respond to these incentives
- In *all* societies to a greater or lesser degree
 - Access to resources is gendered
 - The ability to respond to incentives is gendered
 - The effective prices faced by men and women are gendered i.e. different
- Note this is not simply a difference in endowments. Agents who are, in economic terms, identical will have different access on account of their sex: this is gendered access

Some implications:

Access to the labour market

- In general, restrictions on women's access to the labour market are inefficient
- Many economies in East Asia have formal restrictions on women's hours or forms of labour market participation.
- cf Taiwan. Zveglic and Rodgers results. Restrictions on women's participation reduced working time by 6.1 percent, reduced employment by 0.9 percent.

Ability to respond to incentives

- Control of land – land and other ownership rights [cf Land reform in Laos]
- Control of capital – do men and women have equal control of household and other assets?
- Control of labour: do women (and especially young women) have full rights to their own labour? cf Indonesia, the Philippines?

In addition, what are the effective prices faced by men and women?

- The effective price faced by an agent is the market price plus all other costs of transacting
- The incentive price is the market price plus these *transactions costs*
- Transactions costs include time, covering other necessary responsibilities, the costs of obtaining information, costs of enforcement
- Transactions costs are strongly gendered
- For example, reproductive responsibilities are strongly gendered
- Women must usually bear a disproportionate share of these costs (especially in terms of time)
- These have been dubbed the ‘reproductive tax’.
- Other transactions costs include for example harassment in the workplace.

Consequences?

- If transaction costs are not similar for different agents then market prices will not reflect real incentives or real scarcities
- The transactions costs faced by men and women are *systematically* different
- This suggests a *systematic* efficiency cost due to gender rigidities
- Note that this follows directly from economists' own arguments

The New Institutional Economics and Gender

- The NIE argue that different levels of transactions costs in different societies have an enormous influence on the pattern and rate of economic growth
- They argue that transactions costs are mediated by institutions
- Institutions are devices consisting of formal and informal rules which influence the level of transactions costs.
- Effective institutions reduce transactions costs and encourage socially productive activities *and vice versa*

In addition to formal restrictions

- Formal institutions are supported by informal rules or norms of behaviour
- These include gender norms of behaviour
 - Are there activities which are gendered?
 - Are there jobs which are gendered?
 - Are public spaces gendered?
- Such norms support formal institutional structures and impose differential transactions costs on market participants

A second reason why economics has not taken gender seriously

- A presumption that the social structures which emerge over long periods of time are rational and efficient allocative mechanisms.
- Apparent gender disparities are rationalised as rational responses to natural comparative advantages and observed real rates of return.
- Central model is the economic theory of the unitary household

The unitary household

- A benevolent dictator accurately internalises the interests of all household members and makes decisions which are optimal for the household as a whole
- This is used to rationalise, for example, the differential investment in boys and girls: from the perspective of the household boys have a higher rate of return so the investment is rational.
- It also rationalises the allocation of tasks between the productive and reproductive spheres: boys and girls, men and women have different comparative advantages *vis-à-vis* household welfare and are allocated to where they make the greatest contribution at the margin.

However,

- On its own terms it requires that the benevolent dictator has accurate information on which to base decisions e.g. comparative rates of return to boys and girls, men and women
- Yet, there is evidence that this is not the case and is likely to change eg due to female labour participation
- In addition, from the perspective of policy the issue requires equating social marginal returns to social marginal costs.
- There is abundant evidence that the marginal social returns to eg education are very much greater than the private returns
- This is likely to be even more true for girls because of the impact of girls' education and labour market engagement on fertility, infant mortality and the future health and well-being of the population (cf Shultz 1991 evidence for Thailand)

In addition

- There is a great deal of evidence which discredits the unitary household model (see Appendix 4: *Engendering Development*)
 - Evidence for the altruism of the head of household is mixed
 - There is considerable evidence of coercion within the household
 - Predictions of the model contradicted by the evidence
- If the unitary model is rejected then we must question the presumption that intra-household allocation is efficient
- The particular individual within the household who receives the income (or benefit) becomes important
- This is important when addressing issues of family benefits, child benefits, pensions and social security generally.

Alternative models of the household

- Modern models emphasise bargaining strength which in part is determined by fallback positions.
- Fallback positions are strongly influenced by society's laws and conventions eg divorce laws, settlement of property, of children, pension rights Changes in these are likely to have an impact on the *economic* behaviour of the household beyond their immediate effects. cf China's Marriage law of 1950.

Market and non-market activities

- Consider the boundary between market and non-market activities
- Economic theory assumes that everything relevant is factored into the pricing decision
- Prices are supposed to reflect the *real opportunity costs* to society.
- This means that economic theory assumes that non-market activities do not significantly influence the real opportunity costs to society *or*
- They are already correctly factored into decisions
- If this is not true then prices in the productive sector will be inappropriate i.e. will promote an inappropriate use of resources

Note:

- This style of argument is the basis of much of the literature on sustainable development
- It applies equally to the resources used within the ‘household/subsistence/reproductive sector’
- cf women’s excessive workloads, for example in Vietnam (World Bank, 2000; ADB, 2002)
- Policy should take account of any such misallocation of a resource E.g. Analysis of infrastructural investments should take account of the impact on eg women’s released labour time.

Other important dimensions

- The reproductive sector is a shock absorber of economic distress
- The way in which economic policy changes e.g. user charges have a gender implications which render questionable the overall efficiency of such policies e.g. health [cf Mongolia, ADB&WB, 2004]
- A corollary is that technological investment in the reproductive sector may raise *productive* efficiency
 - Sanitation and water supply; health

From micro to macro

- The arguments considered so far have been microeconomic in nature
 - Argument is based on the stylised behaviour of individuals against a given environment
- However, there are good reasons to believe that macroeconomic theory supports the likelihood of a dividend from greater gender equality.
 - Arguments based on the stylised behaviour of aggregates
- For our purposes the most significant set of such arguments come from modern growth theory

Gender and Economic Growth

- Modern endogenous growth theory tends to emphasise
 - human capital
 - Infrastructural development
 - Knowledge
 - institutional development/constraints
- In general these suggest policies to increase educational provision, raise certain forms of infrastructural spending, release a range of institutional constraints will support economic growth.

Consider education and training

- This form of argument applies especially to educational attainment, employment opportunities, access to information technology
- The argument is that:
 - inherent skills and abilities *relevant to economic growth* are likely to be distributed
 - on an equal basis between the sexes
 - according to a symmetric distribution (eg the normal)
 - This implies that *any gender disparity* will therefore lead to a lower stock of relevant skills
- Argument is essentially that *either not training or not using a society's potential is wasteful*

Evidence from East Asia

- Need to distinguish between *adding* to the stock of human capital and *applying* that stock to its most productive uses
- A great deal of progress in East Asia with respect to the first of these and some of the problems may now be for boys and men cf Mongolia.
- Much less progress with respect to the second [cf occupational segmentation in the Philippines]

Review of argument 1

- Microeconomics is primarily concerned with allocation to achieve efficiency
- The conditions necessary to achieve efficiency are that
 - all resources fully reflect their real costs and
 - that agents are free to follow signals and react to incentives.
- Applying these ideas indicates significant efficiency costs involved in gender biases
- Notions of efficiency also apply to the non-market sector
- It is also important to take account of
 - Intra-household allocation, especially time
 - How the family maintains the stock of labour
 - absorbs economic shocks

Review of argument 2

- Macroeconomics is primarily concerned with aggregates and how these evolve over time
- Growth theory suggests
 - The importance of raising the quality of the stock of human capital
 - The importance of applying that stock in the most effective way
 - The importance of technology, infrastructure, health
- All of these have significant gender dimensions