

CONSTRAINTS ON THE EMPOWERMENT OF WOMEN

*Which constraints limit women's earnings opportunities in
developing countries?*

*And can the United Nations and the World Bank's strategies
overcome these constraints?*

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Abstract

The international community has committed itself to the goal of human development¹ and more concretely to the empowerment of women. Empowerment of women is defined as ‘improving their ability to access the constituents of development - in particular health, education, earning opportunities, rights, and political participation’ (Duflo, 2005). In this thesis I concentrate on the empowerment of women in terms of the improvement of their earning opportunities.

My research questions are:

Which constraints limit women’s earning opportunities in developing countries? And can the United Nations and the World Bank’s strategies overcome these constraints?

In order to shed light on the mechanisms that may create conflicts between improved earning opportunities for women and economic growth, I use a structuralist model by Blecker and Seguino (2002). This model permits us to recognise the mobility of firms as the main constraint to realise an optimistic scenario in which the conflict between higher wages and economic growth is overcome. The mobility of firms and the bargaining power it possesses will press workers’ wages down to their reservation wages.

Furthermore, I use a model of monopsonic labour market, in which the firm is able to pay the marginal unit of labour beneath its productivity, to show that the low female wages can be due to other factors than productivity. Monopsony power allows the firm to engage in wage discrimination and pay workers their reservation wages. The pressure on wages is experienced by both women and men, but women are most affected because of their lower reservation wages. I revise the sources to the lower reservation wages of women.

The analysis makes clear that the mobility of capital and asymmetries in the distribution of power between employers and suppliers in the labour market power in developing countries call for international regulation and action rather than country-specific policies. With this in mind, I revise the recommendations made by the United Nations’ Beijing Declaration and the

¹ In this paper, Human Development is defined as the process of enlarging people's choices. In this concept of human development economic growth plays a role in enlarging people choices, but development is more than the raise of income (UNDP, 1990). Gender equality and the empowerment of women are prerequisites to development (UN, 1995).

strategic documents from the World Bank and evaluate them in terms of their potential to improve women's earning opportunities.

I conclude that both the Beijing Declaration and the strategic papers from the World Bank fail to address the constraints that limit women's earnings opportunities stemming from the mobility of capital across borders and the monopsony power that the firms may possess in the labour markets in developing countries. The organisations miss the global dimensions of such constraints.

Preface

I thank the Centre for the study of Equality, Social Organisation and Performance ESOP for granting me a Gender and Economic scholarship.

I wish to thank my supervisor Marte Strøm, I am very grateful for all the encouragement and guidance she has provided along the writing process. I also would like to thank Martin Flatø for his invaluable comments and for proof reading my text. It should not be necessary to say that all shortcomings and mistakes are entirely mine.

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Carol Lorena Pérez Romay

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1 Introduction

The international community has committed itself to the goal of human development² and more concretely to the empowerment of women. Empowerment of women is defined as ‘improving their ability to access the constituents of development - in particular health, education, earning opportunities, rights, and political participation’ (Duflo, 2005). In this thesis I concentrate on the empowerment of women in terms of the improvement of their earning opportunities.

My research questions are:

Which constraints limit women’s earning opportunities in developing countries? And can the United Nations and the World Bank’s strategies overcome these constraints?

The motivation for these questions is to evaluate if the international organisations’ strategies are capable of improving the earning opportunities of women. I seek to answer these questions because, as pointed by Stephanie Seguino and other authors (see e.g. Berik et al. 2011), there may exist a set of conditions under which an attempt to increase women’s wages will prevent economic growth. This is a challenging scenario for the international organisations when /if they aim for the empowerment of women, defined by their ability to increase their earnings, and economic growth.³ It is important for the international community to understand the mechanisms that generate this conflict in order to create strategies able to overcome such contradictions.

This paper seeks to 1) clarify the mechanisms that generate the conflict between higher wages and economic growth because it may constrain women’s earning opportunities and 2) assess the United Nations General Assembly, United Nations Development Program and the World Bank’s strategies to achieve gender empowerment of women by their potential to relax the constraints that limit women’s earnings opportunities in developing countries.

² In this paper, Human Development is defined as the process of enlarging people's choices. In this concept of human development economic growth plays a role in enlarging people choices, but development is more than the raise of income (UNDP, 1990). Gender equality and the empowerment of women are prerequisites to development (UN, 1995).

³ A usual way to advocate for the empowerment of women has been by referring to its positive correlation to economic growth. The causal relationship between them has not been clearly defined World Bank (2001)). However, the analysis of this paper focuses primarily on the effect of empowerment of women in general and higher wages in particular, on economic growth. This is not to justify gender equality as a means to economic growth but a merely methodological approach to my topic.

In order to shed light on the mechanisms that may create conflicts between improved earning opportunities for women and economic growth, I use a structuralist model by Blecker and Seguino (2002). This model permits us to recognise the mobility of firms as the main constraint to realise an optimistic scenario in which the conflict between higher wages and economic growth is overcome. The mobility of firms and the bargaining power it possesses will press workers' wages down to their reservation wages.

Furthermore, I use a model of monopsonic labour market, in which the firm is able to pay the marginal unit of labour beneath its productivity, to show that the low female wages can be due to other factors than productivity. Monopsony power allows the firm to engage in wage discrimination and pay workers their reservation wages. The pressure on wages is experienced by both women and men, but women are most affected because of their lower reservation wages. I revise the sources to the lower reservation wages of women.

The analysis makes clear that the mobility of capital and asymmetries in the distribution of power between employers and suppliers in the labour market power in developing countries call for international regulation and action rather than country-specific policies. With this in mind, I revise the recommendations made by the United Nations' Beijing Declaration and the strategic documents from the World Bank and evaluate them in terms of their potential to improve women's earning opportunities.

2 Earning opportunities vs. economic growth

As mentioned in the introduction there may exist a set of conditions under which an attempt to increase women's wages will prevent economic growth. This conflict could potentially limit the earning opportunities of women if economic growth was to be prioritised. The scenario that Seguino and other authors (see e.g. Seguino, 2006; Berik et al., 2011) refer to describe the working environment of women in mobile firms. Mobile firms have, in this context, two distinctive characteristics: 1) They are engaged in the production of export-oriented goods; 2) they have low sunk costs. Low sunk costs are due to labour intensive production processes that only require low skilled workers. This kind of firms is usually found in countries at early stages of industrialisation and thereby the economy depends on foreign capital to produce.

The argumentation that gender equality could prevent economic growth hinges on the premise that women are concentrated in the mobile firms. Throughout this thesis, empowerment of women (i.e. improved earning opportunities) is operationalised as the reduction of the unadjusted gender earning differentials i.e. differences in the average earnings of women and men. Another important assumption is that all other wages of the economy are given and kept constant, and therefore, the only viable way to reduce the unadjusted gender earning differentials is by increasing the wages in female-dominated occupations i.e. the mobile firms.

This chapter aims to clarify the economic mechanisms that create the conflict between higher female wages and economic growth in the specific context of mobile firms. I first revise the mechanisms that link wages to productivity, product prices and other production factor prices in light of standard economic theory assuming competitive markets. Later in this chapter, the context in which our analyses finds place is described in depth. Towards the end of the chapter, a structuralist model by Blecker and Seguino (2002) and its results are presented. This model formalises the case of a trade off between higher wages and output in a context that resembles the one this paper is concerned with.

2.1 Effect of higher wages

There are two mechanisms through which an increase in wages levels can reduce national income.⁴ These mechanisms are demand and investment. We consider first a fall in the product demand. In the standard analysis framework, workers' wages are determined by their marginal productivity. A representative firm's profits-maximisation problem yields (with the classical assumptions) that in optimum, the marginal revenue (i.e. price) should equal marginal cost for the last unit being produced. If wages increase while the prices of other inputs and productivity remain constant, the costs of production increase as well.

For a firm producing for a competitive market, the price of the commodities is given. In this case, the increment marginal costs will lead to a reduction in the amount being produced and, by consequence, a fall in the demand for labour. In the case that the producer has some market power in the goods market and can, therefore, influence the price of the good, the constraint on wages imposed by the optimisation criteria dictating marginal revenue equal to marginal cost for the last unit being produced is still valid. In this case (monopoly or oligopoly), the producer has to take account for the price elasticity of demand since he/she will be facing a falling demand curve for the good. The prices will be as a mark-up of the marginal cost.

We can conclude that, either in the competitive or monopoly case, higher prices of labour relative to the other factors of production without an increase in productivity will result in a fall of demand for the good and consequently for the labour used in its production.

The second mechanism works through the investment channel. Investment will be affected in two ways. First of all, in the case the firm can influence the good price, a higher wage increases the unit cost and reduces demand. The reduction of demand will have consequences for the revenues of the firms and their ability to carry out future investments. And secondly, higher costs of production reduce the firm's profits. In this way, higher wages erode the firms' incentives to invest.

Again, we can consider the competitive scenario with exogenous prices as well as the case in which the firm owns some market power and faces a falling product demand. In either case, as long as the good prices are above the marginal costs, the firm has the opportunity to 'internalise' an increment in wages in order to prevent product demand from falling. The

⁴ Throughout this chapter, I (following Seguino) consider a simple national income definition and disregard government spending.

$Y = \text{Consume} + \text{Investment} + (\text{Export} - \text{Imports})$.

internalisation of a wage increase will reduce the profits of the firm and the firm's incentives to invest.

The conclusion is that an increase in wages will affect investments (negatively) in that industry. The fall in investment is as result of a fall in profits, this fall is a consequence of a reduction in product demand, a shrinking of the difference between product price and marginal cost or a combination of both.

These mechanisms (reduction in demand and investments) described above are valid independently of other characteristics of the firm, e.g. the level of skills required in the production process, of the market it produces for (domestic or international).

Better earning opportunities for women (i.e. higher wages in the mobile firms) can work against economic growth, as Seguino claims, due to the mechanisms we highlighted above together with other context-specific features of developing countries at early stages of industrialisation. In the next paragraphs, we look closer at four characteristics specific to developing countries at early stages of industrialisation: emphasis in export manufacturing, dependence of foreign capital to produce, production taking place within mobile industries, and finally, the majority of the workforce in these industries being women (Kabeer, 2004; Fontana&van der Meulen Rodgers, 2005; Seguino&Grown, 2006a).

2.2 The context

The conclusion that higher female wages dampens economic growth is the analytic consequence of the context we are focusing on. We therefore need to look closer at the characteristic features of developing countries at early stages of industrialisation.

International trade and the export sector.

The effects of international trade on women's earnings are much revised in economic empirical literature (World Bank, 2001). At the theoretical level, a basic model as the Heckscher–Ohlin (see e.g. Feenstra, 2004) yields the conclusion that trade expands the consumption opportunities of a country. The model also predicts an increase in the demand for the factor of production which is relative abundant in this country. The increase of demand

for the abundant factor of production creates winners and losers within the country, but trade benefits the country as a whole. According to this model and its analysis, workers in labour abundant countries (as is the case in developing countries) will gain also relative to the owners of capital. We will then expect then that both female and male workers benefit from trade.

The most promising empirical counterpart of this theoretical link has been the ‘East-Asian miracle’⁵ even though the Asian crisis in 1997 slowed down these economies. East Asia with Japan and the so-called four Asian tigers, draw a path for economic development that many other countries have intended to reconstruct and follow (World Bank, 2001:207). From the mid- nineteen sixties to 1990, these East Asian economies experienced the highest growth rates in the world. An increasing share of exports on their national accounts combined with the appropriate macroeconomic policies played a central role in their growth strategy (ibid). This theoretical link has been embraced by the World Trade Organisation which firmly states that ‘trade can lead to economic growth and development’ (WTO, 2011). The World Trade Organisation works to integrate developing countries in the multilateral trading system (ibid).

The status of international trade as an important part of a growth strategy was also reinforced by the structural adjustment policies undertaken by several developing countries from the late 1970’s and early 1980. These structural reforms aimed at bringing national demand in line with national product plus external financing in order to reverse or respond to external economic shocks (ibid, p. 213). A key feature of the structural adjustment policies was the deregulation of trade and the reduction of regulatory constraints to savings and investments – making it easier to move capital internationally (ibid).

Increased importance of the export sector in the structure of developing economies is usually linked to the process of globalisation (see e.g. Seguino & Grown, 2006a; Seguino, 2003; Fontana & Van Der Meulen Rodgers, 2005) observed towards the end of the 20th century. In our context, globalisation can be reduced to the aspects of international trade and investment liberalisation. The first has given developing countries the option to follow an export-led growth strategy while the second facilitates inward and outward movement of foreign direct investment (FDI) that allow developing countries to industrialise.

⁵ Stiglitz refer to: Japan, The four Asian Tigers (Hong Kong, Republic of Korea, Singapore and Taiwan), Indonesia, Malaysia , Thailand as the “East-Asian miracle”.

According to economic theory, international trade and the liberalisation of capital would yield gains for workers, especially for low skilled workers because they are abundant in developing countries. The remaining question is under which conditions international trade and liberalisation of capital can constrain the earning opportunities of women. The majority of low skilled workers are most often women. The remaining of this chapter and chapters 4 and 5 elaborate on the answer to this question. The answer to it consists of two parts.

First, as mention above, female workers are concentrated in jobs in mobile firms characterised by low sunk cost, due to the labour intensive character of the production process and the low level of skills required in this industry. These firms are engaged in the production of goods for export. When products are going to be sold to remote market the firms are mobile not just because they have low costs, but also because the firms do not have to be located in the producing country to facilitate sales (Seguino 2003). The deregulation of capital provides even more mobility to the firms in question. If there are not cost attached to the movement of capital from one country to another, the only cost the firms have to consider to reallocate production are the sunk costs linked to physical capital left behind. This mobility of the firms creates an asymmetry in bargaining power between the suppliers of labour and employers, and it is this asymmetry of power that constrains women's earnings. Another source of power asymmetry is a disproportionate amount of suppliers of labour relative to buyers of labour. i.e. employer. The extreme case is the theoretical case of monopsony, in which there is just one firm in the labour market. The mobility of firms and monopsony power allow firms to push wages downwards.

There is also a second reason why trade and liberalisation of capital create an environment that limits the earning opportunities of women. This second reason is related to the economic link between economic growth and higher wages. Economic growth emerges from increments in productivity. The increment in productivity makes it possible to increase wages without altering the unit cost of the commodity. In the competitive case, wages are reflective of the marginal productivity of workers. What is problematic in the context we analyse in this paper is the firms' ability to press wages down. Low wages combined with the firms' capability to reallocate in the case that higher wage levels are imposed on them (e.g. by minimum wage regulations) annihilates their incentives to increase productivity. The result is that the jobs in such industries do not enhance economic growth of the economy, but they function as

‘subsistence jobs’. Seguino (2003) calls it a ‘low wage low productivity trap’. If female labour is concentrated in these subsistence jobs, their earning opportunities are limited.

This last paragraph highlights the importance of the remaining defining features of the context we are analysing in order to understand the conditions that create a conflict between higher wages and output. This is important to us because such a conflict could potentially limit the earnings opportunity of women if economic growth was to be prioritised.

Mobility of capital

Mobility of capital is one defining feature of the context in which higher female wages could prevent economic growth. The de-regularisation of capital movements relaxes the dependence of investment on own savings and allows developing countries without saving capacity to start the process of industrialisation. Seguino (2003:15) points out that developing countries at early stages of industrialisation are likely to depend on foreign capital to produce the goods they intend to trade in the international market.

It is important to distinguish between direct and financial foreign investment. In this paper we focus in the first one, foreign direct investment (FDI) which is less volatile than the second one. However, low sunk costs and the low level of skills required in the production processes in which women are usually involved give the firms a large capacity to move out of the country. It is this capacity to move to other locations that have provided firms with the ‘threat’ effect and allow firms to put a downward pressure on workers (both female and male) (Seguino, 2003; UNCTAD, 2010). In the previous section, we derived the negative effect of an increment in wages under the assumption that the prices of other inputs remained constant and that there is no higher productivity. The firms have of course the alternative to alter the ratio of production factors in their production process. With labour becoming relatively more expensive than capital, the firm has the option of either investing in human capital to increase productivity per worker or to invest in physical capital that substitutes labour. Seguino (Seguino, 2003) remarks that the mobility capacity of firms in the export sector annihilates the incentives of the firms to invest more in the country where the increment in wages occurred.

An important remark on the mobility of the firms is that, in this paper, the term ‘mobile firms’ refers to international firms that face low sunk costs which allow them to easily move production to other locations. The term covers Seguino’s ‘mobile industries’ (FDI with low sunk cost, including training costs), but also includes other ‘mobile’ arrangements of production as subcontracting or domestic outwork. A multinational firm buying input or final products from local subcontractors can be regarded as an international investor with extremely low sunk costs. We cannot disregard such mobile arrangements of production because, as Braunstein (2000) points out, there is a prevalence of subcontracting and domestic outwork in the export oriented sector. The activities of subcontractors and single workers are often connected to single multinational companies (ibid).

Segregation

The reasoning that higher women wages can be counterproductive to economic growth, hinges upon the observation that women are overrepresented in the export sector. Fontana & Van Der Meulen Rodgers (2005) also point out that they are women who usually take jobs of casual, temporary and flexible nature, and that women are often involved in subcontracting arrangements with final-goods producers. By this form of production, larger firms reduce costs by producing outside of costly labour regulations. Such regulations can stipulate certain benefits and worker's right to organise by avoiding these (ibid).

The World Bank’s 2001 report, for instance, explains that the occupational segregation is persistent in both developed and developing countries. Women are underrepresented in the better-paid and formal sector jobs and overrepresented in the unpaid and informal sectors, according to the same report (World Bank, 2001). In particular, it is reported that women constitute the vast majority of labour force in the garment sector worldwide (ibid: 54).

Gender gaps /low wages

In this section I seek to further clarify what is meant by improved earning opportunities.

According Seguino& Grown (2006a), the type of job that women usually take is an important part of the explanation for their low wages, as they work in ‘mobile’ industries. Low wages are, as standard economics suggests, the expression of the low skill level needed in the

production process but there is also the possibility that, if women are segregated to sectors where the firms have a high degree of power in the labour market then they can be receiving lower wages due to other factors in addition to their lack of skills. Throughout this chapter we assume that wages are competitive (the wage of the marginal unit of labour is equal to the marginal productivity). In the next chapters, the assumption that wages reflects the marginal productivity of workers is challenged.

Occupational segregation and gender earning gaps are two of the most common expressions of gender inequality (World Bank 2001). However, there is a need for further clarification of concepts and ways of measure gender inequality in the labour market. This is important because the way we understand – and measure- gender inequality will determine the challenges we the international organisations seek to overcome.

The WB reports that globally women earn less than men. It is documented that, from a sample of 71 countries, on average, the unadjusted female to male earnings ratio on developed countries is 77 percent (gender pay gap 23 %). While in developing countries women earn 73 percent of men (World Bank, 2001:55). Tzannatos(1999) gives a rough indication of women's earnings relative to men's and states that women's earnings increased from two thirds to three-quarters of men's wage income in the first years of the 1980's in industrialised countries. These figures are not distant from the ones reported by Aumayr et al. (2010). They report an unadjusted gender pay gap of 17.6% for the 27 European Union member states and Norway based on data from 2007. Weichselbaumer and Winter-Ebmer (2005) conducted a meta-analysis of the international gender wage gap and arrived at the conclusion that during the 1990's the raw gender wage differential was 30 %. These numbers are valuable in the sense that they point in the same direction and place the unadjusted female to male earnings ratio in a rather short interval (70-83 %).

The relevance of focusing on the unadjusted gender wage gap when dealing with gender inequality has been challenged. If we limit our understanding of gender inequality to equal pay for equal job and at the same workplace or within the same industry, analysing the unadjusted wage gap can be misleading in several ways (World Bank 2001). First, the average earnings when not adjusted for the attributes of workers, such as education, work experience and skills training are in reality comparing earnings across different types of workers. Second, wages reflect differences in occupations, so when women, as mentioned above, concentrate in some occupations the gender gap will reflect this feature and should not be interpreted as

gender discrimination. And finally, the World Bank indicates that the unadjusted gender gap disregards the fact that women work less paid-hours than men.

Rubery et al. (2005) explains that adjusting the gender wage gap presumes that, except for gender discrimination, wage structures will reflect market factors or productivity differences. (The determinants explain the differences in people, inter-industrial differences and institutional differences). Aumayr et al. (2010) do the following categorisation of gender wage determinants:

1. Job, company and workplace characteristics
2. Type of contract and working hours
3. Personal characteristics
4. Job history
5. Contextual variables, such as region
6. Institutional variables

Critics to the ‘decomposing’ approach point out that while studying the determinants of earnings differences provide useful insights, the focus should not be on the adjusted wage gap for analysing gender inequality (equality in earning opportunities). Aumayr et al. (2010) highlights two weakness of this way of addressing gender earning gaps. First of all, the unexplained component is, in traditional gender wage gap econometric specifications, supposed to be captured by the residual term of the equation. The residual also contains other unobservable and unknown variables. In practice, there is the possibility that omitted productivity-related variables as effort or commitment lead us to overestimate the discrimination (Rubery et al. 2005). Secondly, Aumayr et al. (2010) underline that the explained determinants of the gender wage gap can also be the result of discriminatory processes.

While the first remark can be confined to the methodological level, the second is also a criticism of the understanding of gender equality that such decomposition suggests. (It might legitimate the view that the adjusted gap is the only part of the pay gap that is discriminatory-unequal).

In this section, we have established that there is a gender wage gap which can be decomposed into an adjusted and unadjusted (the residual) part. The unadjusted gender wage gap relies on

the concept of gender equality of earning opportunities and is therefore compatible with the aspect of the empowerment of women that we are concerned with.

2.3 A structuralist model

In this section, I present the formalisation of the argument that higher wages can jeopardise economic growth. I do this by using a model presented in Blecker and Seguino's paper 'Macroeconomic Effects of Reducing Gender Wage Inequality in an Export-oriented, Semi industrialised Economy' (Blecker & Seguino, 2002). I present the model in order to understand the mechanisms that create and 'optimistic' case in which the conflict between higher wages and economic growth. This conflict could constrain the improvement of women's earning opportunities if economic growth was to be prioritised ahead of the empowerment of women.

The model I chose to use among the two presented in that paper, analyses the comparative static effects of a reduction due to an exogenous increase in women's wages, while men's wages are kept constant. I chose this model in order to disregard the possibility of a devaluation that would allow for an increase of female wages while holding the prices to international consumers unchanged.⁶ I present only a shorter version.

The appealing feature of this formalisation is that it frames the parameters corresponding to the parts of the discussion I want to focus on. The model seeks to replicate some of the conditions describing an export-oriented economy, which production possibilities depend of foreign investment, and female workers are concentrated in the export-sector.

Seguino & Grown (2006a) underline that in countries in early stages of industrialisation, the labour-intensive export industries, in which the majority of workers are women, tend to be the more mobile. The assumption of full segregation means that, in practice, a reduction of the gender wage gap is equivalent to higher wages in the export sector i.e. mobile firms.

In particular, they include a parameter on the mobility of capital. In addition to derive the negative effects of a higher wages for women in the export-sector, the model deducts a set of

4. The second model presented in that paper the female-male wage ratio as well as the real exchange rate are endogenous variables of the model, while it assumes flexible nominal wages and a crawling-peg exchange rate.

scenarios and thinkable outcomes of an exogenous increase in women's wages under each of them: The 'pessimistic', the 'cooperative/ optimistic' and finally what they call the 'equalising but conflictive' case.

In chapter three, we look at the conditions required to reproduce a 'optimistic' scenario, which will allow the organisations to advocate for empowerment of female's workers rights that will lead to higher wages without undermining economic growth.

The model consists of a stylised characterisation of a two- sector economy, producing a non-tradable home product H and an export- good X that is consumed both at home and in the international market. The H- sector employs male labour a_H for a male -specific wage w_m . The export-sector utilises female labour a_x at wage w_f to produce the good to be sold at the international market (X). Male wages are assumed to be higher than female wages, i.e. $w_x > w_f$. The model also assumes complete gender segregation. In our case, this assumption is to say that wages in the export sector i.e. the mobile sector are low compare with other wages in the country.

In addition to labour, the economy produces with help of an imported capital input n which world price is P_n^* , the non-tradable home sector uses n_H of the imported capital good, and the export-sector utilises n_x in its production. In her analysis, Blecker and Seguino model the dependency of semi-industrialised economies in foreign capital by assuming that the country needs to buy capital from abroad. This is conceptually the same as saying that the country seeks to attract and retain mobile firms to operate in the country. The term mobile firms, in this paper, refers to foreign direct investment into industries with low sunk cost as well as international firms involved in sub-contracting arrangements with local suppliers.

The model derives the following mark-up price equation for the export sector:

$$P_x = \phi (w_f a_x + e P_n^* n_x) , \quad \phi > 1 \quad (1)$$

(e) is the exchange rate, so that $e P_n^*$ is the price of the capital input in domestic currency.

The export- sector mark-up ϕ can be either constant or flexible, in particular Seguino and Blecker impose the following functional form:

$$\phi = \Phi \rho_x^\theta \quad (2)$$

Where $\rho = eP_X^*/P_X$ is the real exchange rate for exports $\theta \geq 0$ is the elasticity of the price-cost margin with respect to ρ , a high θ shows that a firm has the ability (willingness) to internalise an increase in production cost in response to international competitive pressures. When $\theta > 0$ the firms mark-up adjust instantaneously to try to maintain its market share θ which in this model is exogenous. Combining (1) and (2) we can write:

$$\phi = \Phi^{1/(1+\theta)} \frac{eP_X^*}{(w_f a_X + eP_X^* n_X)^{\theta/(1+\theta)}}, \quad \Phi > 1 \quad (3)$$

This last expression makes it clearer that when $\theta \neq 0$ the mark-up ϕ is more sensitive to variations in production costs. In our analysis θ reflects the ability or willingness of a firm to internalise an increase in wages as a function of its ability to move production to other locations and, if it is the case that the firm has some monopsony power in the labour market, θ will reflect the firm's powerful position.

In this model, the primary macroeconomic effects of any increase in female wages are on export demand as well as investment in export industries. To see this, consider the following two expressions:

$$E_X = A \left(\frac{eP_X^*}{P_X} \right)^\Psi, \quad A > 0, \quad 0 < \Psi < \infty \quad (4)$$

E_X is the export demand, A is an exogenous shift factor (such as income levels in foreign countries. A decrease in A would, for example, represent a recession in foreign economies), P_X^* is the foreign currency price of competing products from other countries, and Ψ is the price elasticity of demand.

The investment function used by Blecker and Seguíno states investment expenditures as a function of profits in the two sectors in the following way:

$$eP_I^* I_M + P_H I_H = I_0 + b_1 R_H + b_2 R_X, \quad b_1, b_2 > 0 \quad (5)$$

I_M is the economy's import of investment goods and P_I^* is its price in foreign currency. Then $eP_I^* I_M$ is, in our interpretation, the value of foreign direct investment to the country. $P_H I_H$ is domestic investment. Together is the left hand side the total investment expenditures in both sectors, the model do not specify in which sector the investments are done.

The right-hand side is the investment demand function. Blecker and Seguino define I_0 as a constant term that is meant to reflect a minimum level of investment in the country. The parameters b_1 and b_2 measure the responsiveness of investment to profits in the two sectors. The authors elaborate and explain that b_2 reflects the openness of a country to inflows and outflows of ‘footloose capital’; it expresses that investment in any particular developing country will depend on the relative profitability of its export-sector compared with that of any other competing country. If mobile firms, including firms buying inputs of final products from subcontractors, perceive their profits to be reduced (by and increment in wages) they move to other locations.

R_H and R_X are the profits received in each sector, in particular :

$$R_X = (\phi - 1)(w_f a_X + eP_n^* n_X)X, \quad \phi > 1 \quad (6)$$

Where X is the total demand for the X-good.

$$X = C_x + E_x \quad (7)$$

C_x is the home consumption of the X good.

In order to integrate the value of imported investment goods (FDI) $eP_I^* I_M$ into the equilibrium condition for overall goods market-clearing,⁷ the authors conveniently assume that imported investment goods are a fixed proportion ($\mu > 0$) of home investment, such that $I_M = \mu I_H$, and

$$P_H I_H = [I_0 + b_1 R_H + b_2 R_X] / (\rho_M \mu + 1) \quad (5a)$$

From the above expression it becomes clear that the effects on exports (demand) and investments are due to the alterations of the real exchange rate for exports $\rho_X = \frac{eP_X^*}{P_X}$ through the increase of P_X . E_x in (4) decreases affecting the total demand of the good X , R_X in (6) decreases as well and finally the investment level (5a) falls. The decrease in demand for the X product is due to a decrease in exports, but also the decrease in home demand for the X-product. The relative price of home good to the export-good P_H/P_X decreases and a reduction on the home demand for the X-product will follow. These results are similar to those we got

⁷ Equation (19) of the original model

in our analysis in section 2.1. The valuable contribution of Seguino and Blecker is that their model highlights that the magnitude of the negative effects of a reduction in profits will depend on the mobility of the firm (b_2). The logic seems rather simple, if a mobile firm is able to move to another location, it will be more responsive to a marginal reduction of their profits. The reduction in investment can occur through a reduction of the mark-up ϕ , due to a $\theta > 0$ or by a reduction in the quantity of the export good being demanded (X) in (6).

The equilibrium condition stating that national income (Y) equals aggregate demand makes clear that a reduction in investment, domestic demand and export demand following an increase in women's wages would reduce the former. Nominal national income, which for simplicity assumes no government spending or taxation, is divided between total wages $W = w_H + w_X$ and $R = R_H + R_X$.

$$Y = W + R = P_H C_H + P_X C_X + P_H I_H + P_X E_X - e P_n^* (n_H H + n_X X) \quad (7)$$

The explanation in words is that female workers are concentrate to the production X-good which is mainly produced for export. The production process requires low levels of skills and they are labour intensive processes. This type of production processes yield low sunk cost to the firm and great mobility. And increase in the wages will lead to an increase in prices P_X and a decrease in the real exchange for exports $\rho_X = \frac{e P_X^*}{P_X}$. From this, it follows a reduction in demand for X as well as a reduction of investment levels. I.e. foreign capital moves to other locations and/or international clients find final goods suppliers in other countries.

By assuming some local consumption of the X-good, the authors explore the option that a decrease in export demand can to some extent be outweighed by an increment of the home demand. In our exposition, the parameter α refers to the share of national income that is spent on the export-product X. The mechanism will work through the income redistribution from the owners of capital to workers. This redistribution stems from firms' ability to internalise an increment in wages through θ . This redistribution is beneficial to the economy because workers are assumed to have higher propensities to consume than the owners of

capital ($c_W \gg c_R$).⁸ Seguíno (2003) explains that higher wages can influence the economy positively because they would create incentives for the firms to increase productivity.

2.3.1 Results of the model

As mentioned above, in her analysis Blecker and Seguíno identify three possible outcomes of an exogenous increase in women's wages: The 'pessimistic', the 'cooperative/ optimistic' and finally the 'equalizing but conflictive' case. These are scenarios which all include an increase of the export-good prices P_X and a reduction (of different magnitudes) in export demand and investment.

Which scenario will prevail, will depend on the values of the parameters of the model. In addition to the parameters presented above: 1) price elasticity of demand (Ψ), 2) b_2 , which measures the responsiveness of investment to profits in the two sectors and 3) θ representing the elasticity of the price-cost margin with respect to the real exchange rate for exports ρ_X with ($\theta \geq 0$), the original model also includes the following parameters:

c_w, c_R : Marginal propensities to consume out of wage (w) and profit (R) income ($1 \geq c_w > c_R \geq 0$, and

α : Share of national income that is spent on the X-good

The 'pessimistic' case comes around if 1) the exports markets are highly competitive (high Ψ), 2) there is little home consumption of the X-good (α is low), 3) if the spending propensities of workers and capitalists c_w, c_R are similar so that a redistribution of national income $Y = W + R$ does not have a big impact on domestic demand and 4) if the remaining parameters, θ and b_2 , are either both high or low at the same time.

This combination of parameter seems logic when we look at expression (2). From (2) it follows that a high θ (meaning that firms cannot pass higher production costs on to consumers) will lead to a reduction of the firms' profits (\emptyset). This combined with high capital mobility b_2 (which allows reallocating production to lower cost locations) will strengthen the negative effects of an exogenous increase in women's wages on the production of the X sector via investment (5a). The combination of a low θ and low b_2 will mean that an increase in factor prices will be almost entirely transmitted to consumers (low θ) and that demand for the

⁸ The model assumes $1 \geq c_w > c_R \geq 0$,

X -good will be sharply reduced due to the high price elasticity (Ψ) in this case, the firm will close their operations.

The model yields the conclusion that a rise in women's wage under such circumstances causes a relatively large loss of export so that female employment definitely goes down, while the effects on total employment, $a_X X + a_H H$, and the real income Y/p_H are ambiguous.

The 'cooperative/ optimistic' outcome or the 'equalizing but conflictive' to be realised, it is required that θ is high and the mobility of capital is limited (low b_2). In addition, there is a significant difference between workers and owners of capital propensities to consume $c_W \gg c_R$. The parameters that determinates whether the outcome is cooperative or conflictive are the price-elasticity the X -good demand (Ψ) and the share of national income that is spent on the X -good (α).

In the first case is $\Psi > 1$ but only moderate, while in the second it is less than one $\Psi < 1$. The major contrast between the two cases is regarding the share of income spent on the x -good. While the optimistic case will depend on a low α , the conflictive one is realised by a high α .

In the optimistic case, women's gains take the form of higher wages, but no more jobs (since α is low, the increase in domestic consumption does not outweigh the loses in export demand), while men get more jobs due to the boost effect of aggregate demand from the redistribution from profits to wages $c_W \gg c_R$. In the conflictive case, women gain in terms of higher wages and more jobs, while the number of jobs in the H-sector might increase or decrease. Men's real wages fall since all workers have the same propensity to consume the X -good, which price has increased. That women benefit while men do not is the reason to call this last outcome for conflictive.

I will consider the optimistic and conflictive outcomes equally desirable, in the sense that they get around the trade off between higher wages or employment faced by women in developing countries. This trade-off has been used as an argument for holding back demands for increasing women's wages.

3 The optimistic case

3.1 The optimistic case, what is needed?

In this chapter we revise the optimistic case, in which the conflict between higher wages in the mobile industries and economic growth is avoided.

Seguino and Blecker (2002) conclude in their analysis that the impact of a reduction in the gender wage gap will have negative repercussions for the economy and that the magnitude of these negative consequences will depend on the parameters of the model. In the next section, we look at the conditions required to reproduce the ‘optimistic’⁹ scenario. This is important out of two reasons. (1) We have implicitly assumed that it is a goal to increase the wages of women, and 2) It is necessary in order to evaluate the World Bank’s and United Nations’ ability to improve women’s earnings opportunities. We will use the optimistic scenario as a benchmark case. I will especially concentrate on the mobility of the firm (b_2) and the willingness or ability of the firm to internalise an increment in wages that will reduce its profits (θ)

The model considers:

1. The price elasticity of demand (Ψ),
2. The firms’ ability to internalise an increase in wages in the mobile industries θ ,
3. Marginal propensities to consume out of wage (w) and profit (R) income, c_w and c_R , with $1 \geq c_w > c_R \geq 0$.
4. The fraction of national income spend on good X (α),
5. The mobility (b_2) of the firm. It measures the responsiveness of investment to profits in the mobile industry because it reflects the openness of a country to inflows and outflows of what Blecker and Seguino call ‘footloose’ capital
- 6.

The optimistic case required:

(θ) to be high, the mobility of capital to be limited (low b_2), a significant difference between workers and owners of capital propensities to consume $c_w \gg c_R$, the price-elasticity of demand for the export product (Ψ) should be either less than one or moderate higher than

⁹(case II and III which I call for optimistic)

one and the share of national income that is spent on $X(\alpha)$ could actually be either low or high.

Since we do not have restrictions on the value of (α) , we can simply ignore it. As I mentioned above I will concentrate on the θ and b_2 for several reasons. First, both the elasticity of demand and the propensity to consume are descriptive parameters, which the international organisations cannot influence. Second; the propensity to consume differences between workers (c_W) and capitalist (c_R) is part of the demand side of Seguino and Blecker's model (the reduction on export demand is compensated by an increase in the domestic demand (α) and the workers demand ($c_W \gg c_R$)). The emphasis on the positive effects of redistribution depends upon the understanding of growth as being wage-led rather than profit-led.

Seguino's proposal to overcome the contradiction between wages increment in the export sector and economic growth is to seek the 'set of structural, policy and institutional conditions in which a redistribution to wages from profits is a stimulus to growth' (Seguino & Grown, 2006a). The approach that growth can be wage-led hinges upon the idea that higher wages could stimulate productivity growth, and neutralise the effect of an increase in wages on unit labour cost and prices and thereby neutralise the effects on investment and export demand. For this reasoning to be accurate, there are two conditions to be met. One is that workers are able to harvest the fruits of productivity gains, which is not necessary always the case. And second, that firms have incentives to increment productivity. Both conditions will depend, among other factors, on θ and b_2 . That is why I prioritise these parameters. I come back to the explanation on how θ and b_2 influence workers' compensation and firms incentives to increment productivity of their workers.

The reason for disregarding the elasticity of demand is closely related to Seguino and Grown's (2006a) recommendation to shift production to price-inelastic good and services in order to be able to combine the goals of improving women's well-being and promoting economic growth. The explanation consists of two parts. One is that the decision on what sort of good to produce may be outside of the developing countries set of options, if they depend on international capital to produce at all at early stages of industrialisation. For more mature economies (as the East Asian 'tigers') with manufacturing production shifting towards more skill-intensive (and less price inelastic) goods, the share of female workers in manufacturing has fallen (Seguino & Grown, 2006a). An explanation to this can be that even if the gender education gap is narrowing many places, the firms continue to regard women as less

profitable investments for training, partly because they are less stable workers due to family duties and partly because of the perception that women's income is just a secondary source of income to households. However, firms' decision on whether to invest in female or male workers is subsequent to the decision on whether to invest in training or not. This first decision depends again – among other factor- on θ and b_2 . Next, I revise how mobility influences the effects of an increment on wages in the mobile export sector, and how θ is influenced by b_2 .

According to the analysis of the model, the negative effects of an increment in wages in the export sector would be bigger if the firms are able to change location (b_2 is big) and less if the mobility of the firm is limited. Seguino & Blecker do not present an explicit relation of θ and b_2 and treat them as exogenous parameters. It should also be possible to consider the firm's willingness or ability to internalise an increment in wages and reduce profits as a function of the mobility of the firms and other variables (v), i.e. $\theta = f(b_2, v)$. A firm with low sunk cost (or acquiring goods from local suppliers) will easily move to a new location if by that it avoids to reduce its profits.

3.2 Mobility's threat effect

As mention in chapter two, the term 'mobile firms' refers to companies in the export oriented sector that have been established through foreign direct investment. These firms have industries low sunk costs, including training cost and the amount of capital needed in the production process (labour-intensive industries). Low sunk costs allow firms to easily move production to other locations. The term also includes companies who utilise other 'mobile' arrangements of production, such as subcontracting or domestic outwork.

Few regulations on inflows and outflows of capital in developing countries make firms much less physically bounded to a country as it increases the firm's ability to respond to higher costs or more regulation by shifting production to less costly or regulated countries (Seguino, 2003). Subcontracting on the other hand, makes local firms in the competitive export- sector to depend on more powerful clients further up the value chain Rubery & Grimshaw (2009) Seguino & Grown (2006a) points out that the mobility of firms requires developing countries interested in attracting FDI to compete with other countries in terms of, among other conditions, labour costs. Since we consider subcontracting as a mobile firm with very low sunk cost, this remark is valid for FDI with low sunk cost and local subcontractors aiming to

attract multinational companies. Oostendoorp (2004) remarks that the mobility of firms, through increasing competition, may weaken the bargaining power of workers employed in a sector increasingly competing on the basis of 'cheap labour' (ibid, p.2). The increased ability of businesses to relocate at least some parts of their production across national borders puts a downward pressure on the wages in the relevant industry, he explains.

Seguino & Grown (2006a) and Oostendoorp (ibid) refer to the 'threat effect' that firms' mobility create. They explain the threat effect in terms of bargaining power differences between firms (acting as employers and clients) and workers/local suppliers. The basic bargaining model for determination of wages (see e.g. the exposition in Cahuc & Zylberberg 2004) does not assume wages to reflect the marginal productivity of workers as we have assumed in this chapter. The bargaining model relies upon the existence of a reservation wage that the worker has to get in order to participate in the non-cooperative game of wage setting.

The concept of subgame perfect equilibrium is a concept of equilibrium that successfully removes strategies based in non-credible threats. A simple game as the ultimatum can be instructive. In the ultimatum game, two players (the firm and the worker in our case) will negotiate how to divide a surplus. Player 1 proposes a way to divide it and player 2 responds by accepting it or rejecting it. If player 2 rejects, none of the two players will receive anything. In this game, there is just one subgame perfect equilibrium which yields that the player making the first offer will harvest the entire surplus generated by the game. This is because player 2 prefers to get some gains rather than nothing. The equilibrium is that player 1 suggests to get all the surplus himself and player 2 is indifferent between accepting or not, meaning that the worker in our case is satisfied with getting his/her reservation wage. In our context it will mean that the mobile firm (who is the one offering a wage) gains all the difference between product price and the reservation wage of the worker because the workers have no way to threaten the firm. If the worker rejects, the firm can move to another place and find a new worker who will accept. Reservation wages do not need to depend on productivity but cannot be higher than the competitive wage. In that case, the company would reduce labour demand. However, wages resulting from a bargaining process can be lower than the competitive wage. The lower the reservation wage of the worker, the bigger the gain of the firm. In this case, the firm will have an incentive to bargain against workers with the lower reservation wages for a given productivity.

A firm's mobility diminishes the incentives it has to invest in human capital in order to improve productivity that will compensate the increase in wages. The low levels of skills required in the production processes mean that the cost of training and turnover are low. Women are engaged in labour intensive activities, which means that sunk costs incurred by changing location are also low and that the firms do not invest in physical capital in order to influence the relative prices of production factors. Seguino (2003) remarks that firms can rely on low wages as a way to gain competitiveness and are not pressured to raise productivity. She describes this situation as a 'low wage - low productivity' trap characterised by low wages and slow improvements in productivity. This trap will hamper economic growth as investments in human capital are not carried out.

We have now revised the parameters of the model and, in this context, identified the mobility (b_2) of firms as the most influential parameter on the effects of an increase in wages in the export-sector. The analysis of Seguino and Blecker leads to the conclusion that a transfer from profit income to wages (through a small b_2 and a big θ) reduces the 'cost' of higher wages for a given productivity. Higher wages would at the same time take the lead in inducing higher productivity in the labour-intensive manufacturing industries (Seguino, 2003). This is what Seguino refers to as wage-led economic growth.

Again, the reasoning that economic growth can be wage-led in the sense that it promotes productivity and therefore frees workers off a low wage, low productivity trap relies upon the assumption that workers (and the host country) are able to appropriate some of the gains of productivity, and that wages depend to a large extent on the skills of the workers. If this was not the case, the emphasis on education and other investments in human capital would not have been as strong as it is today. Bhattacharya and Rahman studied the garment industry in Bangladesh and found evidence that workers do not have the ability to harvest increases in productivity (in Seguino & Grown 2006a).

The motivation to understand the constraints that limit women's earning opportunities is to find ways to relax these constraints. Our second research question asks whether the international organisations' strategies will be capable of overcoming such constraints.

In chapter 6, we will evaluate the World Bank and United Nations recommendations aimed at promoting the empowerment of women (by improving their earning opportunities) by

looking at their potential to influence the mobility of firms (b2), which in this section was identified as the key parameter to reproduce the 'optimistic' case.

An increment in wages (from which firms cannot escape) would give firms the incentives to invest in human capital to increase productivity, which will result on economic growth (i.e. the optimistic case in Seguino's analysis). The regulation of capital movements has to be global in order to have a positive effect. Otherwise, the country imposing such restrictions on foreign capital will lose foreign investment to other countries with fewer restrictions.

4 Monopsony power

Monopsony describes a situation of a single employer encountering large amounts of suppliers of labour. In this chapter I present a basic monopsony model in order to explain how differences in labour market power may result in low wages relative to productivity. In addition I revise the implications of this model for the implementation of a minimum wage.

4.1 Monopsony model

Industries in the export sector in semi-industrialised countries are characterised by labour-intensive production processes and the lowest sunk costs and are therefore the most mobile industries. Fontana & van der Meulen Rodgers (2005) and Seguino & Grown, (2006a) state that female labour tend to be more concentrated in lower skilled jobs. These observations shape the impression that women in the early stages of industrialisation with a big export sector have jobs in the labour-intensive, low-skilled and mobile industries. A task to do is to review the possibility that the mobile industries in the export sector have any source of power in the labour market that allow them to be paying their workers low wages not just on the basis of their low skills, but also as a result of the asymmetric power relation between employers and workers.

The basic monopsony model¹⁰ is useful to shed light on the effects of labour market power on wages. The basic model builds on two defining assumptions. First at all, the labour supply is confined to a restricted geographical area, and second, high entry costs restrict new firms to start production and demand labour. The first assumption is certainly applicable for low skills workers in developing countries which do not have easy access to labour markets in developed countries. The second one can be understood as weak competition at the local labour market by domestic industries due to adverse economic conditions in the country, scarcity of domestic capital and underdevelopment. This is consistent with the stylised facts of Seguino and Blecker's model. In that model the import of capital is rigid to reflect the dependency of developing countries on foreign capital in order to produce.

In the monopsony model, contrary to the common assumption of perfect competition, wages are not exogenous, and therefore there is not a mechanism that guarantees that workers are

¹⁰ Boal and Ransom take care of a more advanced model of monopsony power, as the case where there are several companies sharing market power.

paid according to their marginal productivity. The monopsonic firm seeks to maximise its profits by deciding the wage to be paid to workers while facing a given upward labour supply function, so that the less the firm pays, the smaller number of workers it attracts (Rubery & Grimshaw, 2009).

Formally: $L^S(w) = G(w)$ is the labour supply function of the workers, (y) is the amount of product produced by one unit of labour. This one unit of labour is rewarded by w^M in the monopsonic case in contrast to the w^* that follows from the optimisation rule in the competitive case: $w^* = y$.

The wage (w^M) stems from the particular maximisation problem of the monopsonist

$$\text{Max}_w \pi(w) = L^S(w)(y - w) \quad *$$

The first order condition of the maximisation problem yields:

$$w^M = \frac{\eta_w^L(w^M)}{1 + \eta_w^L(w^M)} y, \quad **$$

$\eta_w^L(w)$ is the elasticity of the labour supply and is strictly positive i.e. $\eta_w^L(w) = \frac{wL^{S'}(w)}{L^S(w)} \geq 0$

The profit of the firm¹¹ is in this case expressed as: $\pi(w^M) = yL(w^M)/[1 + \eta_w^L(w^M)]$

From (***) we see that the monopsony power, measured as y/w^M , gets reduced with the elasticity of the labour. This is just an expression of the monopsonist's trade off between offering low wages and the amount of labour $L(w^M)$ the firm can attract. If labour supply is highly elastic, a marginal reduction in wages means a steep fall in employment, production and profit. In the opposite case where the labour supply is less affected by wages, the monopsonist is able to reduce wages (or offer low wages) without noticing significant impacts on employment and thus on profit.

Differentials in wages across groups of workers with the same competences and job specifications may exist if workers 'are unlucky enough to be in a market dominated by a monopsony' (Cahuc & Zylberberg, 2004:258). In terms of our analysis, low-skilled workers confined to developing countries will be receiving lower wages on the basis of their poverty levels (and lack of competition in labour markets) and not due to their lower productivity

¹¹ We assume that the firms do not have any market power in the goods market, so that the prices for the goods are given.

compared to low-skilled workers in richer countries. They will also receive low wages with respect to high-skill workers in their own countries, if it is the case that higher-skills labour market is less monopsonic than the market for low-skilled workers.¹² The differentials in wages (same skills level but different locations and same location but different skills levels) will be proportional to the weakness of the labour supply elasticity prevailing in their labour markets (ibid).

Assuming that there is a 'gender-less' labour market¹³, women and men in a monopsonic labour market would be receiving lower wages relative to their productivity, but no wage differential would be observed within the single firm. Gender considerations can affect female workers' wages in two ways: firstly, if there are gender differences of elasticity and secondly, if reservation wages differ across gender.

Differences in labour supply elasticity affect, as we have shown above, the ratio y/w^M which measures the monopsony power of the firm. Differences in reservation wages are relevant in the case that the firm is able to pay different wages for the same work (i.e if there is no regulation on equal pay for equal job). Wage discrimination is conceptually impossible under perfectly competitive labour markets since wages are paid according to their marginal productivity and workers are perfectly mobile. Wage discrimination across individuals or groups is linked to imperfect markets as in the case of monopsony.

4.1.1 Wage discrimination

Female labour is, as mention before, concentrated in mobile firms that could press wages downwards due to their powerful position in a monopsonic labour market. In this section, we will see that in such a market, it is possible to discriminate between different groups of workers. We revise the possibility that employers are able to pay women lower wages than they would pay men for the same level of productivity.

Discrimination is defined as a situation in which identical productive individuals or groups are treated differently due to other non-productive characteristics (Cahuc & Zylberberg, 2004). In his renowned analysis of discrimination, Gary Becker conceives it as originating from employers, workers' and consumers' preferences, among other variables. Becker (1993)

¹² Which can be the case if the mobility of high skilled workers is greater than that of the low-skilled ones.

¹³ We disregard all other dimensions by which equally productive humans can be grouped, for example ethnicity or age.

underlines that the only way to understand the barriers to the advancement of minorities is by widening the assumptions that employers only consider the productivity of their workers, that co-workers are indifferent to the characteristics of each other and that consumers exclusively care about qualities of the goods and services they buy. He points out that an employee may refuse to work under a woman or a black person even if they are well paid to do so, or that a customer may prefer not to deal with certain groups when receiving a service (ibid).

In this form of interpretation, female workers¹⁴ must accept lower wages than other equally productive workers in order to compensate for the cost in terms of dislike that employers feel by employing them (Cahuc & Zylberberg, 2004). The preferences of co-workers will also influence the wage that female workers get. Workers with an aversion for working with women have to be compensated by higher wages relative to their productivity. The high wages are financed by female wages which are lower than reflect their productivity (ibid). Following the same logic, female local contractors will receive lower prices than their male competitors to compensate international clients with an aversion.

An alternative way to approach discrimination is along the argument that employers show an optimising behaviour by systematically employing women rather than men if women can be as productive as men. Lower levels of wages are then a result of women's lower reservation wages and, if that is the case, women's less responsive supply of labour to changes in wages (lower elasticity of labour than men).

Boal & Ransom (1997) distinguish between first and third degree wage discrimination that a monopsonic firm can practice. Discrimination of the first degree assumes that the employer knows each worker's reservation wage and pays only this wage to him or her. Boal & Ransom (ibid) remark that in practice, firms are more likely to at most have indicators of labour supply elasticities of different groups of workers. If women and men have different elasticities, the firm can engage in third degree wage discrimination consistent with paying different wages for women and men. The group whose labour supply is more responsive to wages will receive higher wage. It should be possible for a monopsonist to combine both types of wages discrimination to increase its profits if there is reason to believe that women in general have lower reservation wages and lower elasticity of labour.

¹⁴ But also other belonging to the "wrong" demographic group

Several studies have tried to establish the magnitude of women's labour supply elasticity and whether it is higher or lower than that of men (Boal & Ransom, 1997). Empirical studies have usually found that women are more responsive to change in wages at aggregate levels (ibid). At the same time, Boal & Ransom remark that some researchers argue informally that the contrary is the case at the individual firm level. Rubery & Grimshaw (2009) are two of the researchers claiming this to be the case. They equalise women's higher risk to be exposed to monopsony power (explained by the lack of alternative income sources and women's limited job choices) with less wage elastic labour supply. They explicitly affirm that women's labour supply to the individual firm is less wage elastic than that of men even if, at a more aggregate level it is regarded as being more elastic. Furthermore, Rubery & Grishaw (ibid) claim that it is arguable that women only respond to wages and adjust their labour supply in upward direction once women manage to enter the labour market, as they are less likely to withdraw from it even if wages go down.

Sources of low reservation wages:

A monopsonist is able to wage discriminate and press wages down to reservation wages, and would therefore have a preference to employ those workers with the lower reservation wages (according to his/ her profit maximisation behaviour). There is the claim that women have lower reservation wages (see e.g. Rubery, 2009). It is necessary to recognise the sources of low female reservation wages in order to identify ways to improve women's wages. Low reservation wages can hold women's earning opportunities down, especially in a monopsonic labour market. The sources of female lower reservation wages compared to male's reservation wages are:

- 1) Women can be regarded as newcomers into the labour market, i.e. outsiders trying to enter the newly established export sector. Transition from agricultural economies to semi-industrialised ones have created new paid job opportunities in the new industries, and those opportunities may be the only remunerated work opportunity for women who have been kept out the labour market due to among other reasons cultural norms (World Bank, 2001, p187). Lindbeck and Snower present the argument that newcomers, being in a vulnerable position, need to bid down their wage to encourage job creation and to overcome the preference that employers may have to hire insiders over outsiders, due to for example cost of hiring (in Rubery & Grimshaw 2009)

- 2) Women's wages may be expected to be a secondary source of income to the household which only contributes marginally rather than completely proportional to the total family income (ibid). This male breadwinners bias assumes men to have the right to regularly paid jobs and jobs where there is upward mobility (Seguino & Grown, 2006a). The conception of men as the breadwinner in the family implicitly expects women to be dependent upon family income and lowers their reservation wages (Rubery & Grimshaw, 2009)
- 3) Women are expected to yield lower return to human capital investments. Women trying to enter into the monopsonic labour market that we have described have limited skills, and they cannot easily move up to a higher skilled sector. The mobility from lower to higher skills occupations is in addition limited by the conception that women yields lower returns to training at work since they are more likely to leave paid work to fulfil domestic responsibilities, among other factors (Becker, 1993; Seguino & Grown, 2006a)

We can conclude that a monopsonist would augment their profits by employing or engaging in transactions with workers with 1) less elastic labour supply and 2) lower reservation wages. The ability of incurring into these types of wage discrimination will depend on the existence or lack of labour market regulations (i.e. minimum wages and laws on equal pay for equal work). Since monopsonic labour market is an imperfect market, it is by definition in need of intervention if it is to yield the effective outcomes of a competitive market. It is important that regulations meant to protect workers' wages are made on a global basis (or together with the regulation of capital) to prevent that mobile firms move to other locations in order to avoid local market regulations.

In chapter 6, we will evaluate the World Bank's and United Nations' strategies in terms of their ability to improve women's earning opportunities, also faced with a monopsonic labour market. The implementation of minimum global wages is presented as an effective way to limit employers monopsony power and thereby improving the earning opportunities of women. We take a closer look at the effects of a global minimum wages in the next section.

4.2 Global minimum wages/ social floor

Warnings about the regulation of labour markets have been made, especially regarding the global establishment of the International Labor Organisation's (ILO) seven 'core conventions' (Singh & Zammit, 2004) and the inclusion of a 'social clause' to enforce global labour standards through sanctions by the WTO against countries that fail to follow such agreements (Kabeer, 2004)

The core conventions are (ILO 2011):

- Forced Labour Convention, 1930
- Freedom of Association and Protection of the Right to Organize Convention, 1948
- Right to Organize and Collective Bargaining Convention, 1949
- Equal Remuneration Convention, 1951
- Abolition of Forced Labor Convention, 1957
- Discrimination (Employment and Occupation) Convention, 1958
- Minimum Age Convention, 1973
- Worst Forms of Child Labor Convention, 1999

I focus on two of the arguments against labour market regulations: (1) they affect only the formal sector and (2) regulations might affect hiring because they increase the costs of labour. The first argument is especially relevant for women since they constitute the majority of workers in subcontracting and home-based work. The establishment of the core ILO conventions or a social clause that only targets formal jobs will fail to improve the conditions of women working in 'flexible' arrangements of production. There is a need for labour regulations that cover people both in the formal and informal sector.

The second argument, increased costs of labour and their effect on labour demand was revised in section 2.1. We came to the conclusion that in competitive markets, further increases in wages¹⁵ limit investments and demand of labour and thereby dampen economic growth. This is because labour is compensated according to productivity. The trade off between wage and employment growth affects women negatively, especially if, the concept of equal pay for equal job is replaced by policies aimed to ensure equal pay for work of equal worth (World Bank, 2001) as it has occurred in several places. A critique to this kind of policies is that they

¹⁵ For giving levels of productivity and prices of other input factors.

require an increase in the wage levels in occupations dominated by women which will decrease hiring in those jobs. An increase in wage levels can also stem from other labour market regulations, as for example the Freedom of Association and Protection of the Right to Organise which increases workers bargaining power for higher wages. Regardless of the source of an increase of wages in female-dominated occupations, there is a fear that such increases will affect women and the economy in general, as explored in this paper. However, we have also revised the possibility that the occupations in which women constitute the majority of workers (export oriented mobile industries) may be a monopsonic labour market.

In a monopsonic labour market, it is possible to increase wages for given levels of productivity without reducing the demand for labour.

By comparing the competitive wage w^* that follows from the optimisation rule in the competitive case: $w^* = y$. (see page X) with the wage stemming from the first order condition of the maximisation problem $w^M = \frac{\eta_w^L(w^M)}{1+\eta_w^L(w^M)}y$, it becomes clear that wages in a monopsonic labour market lie below the competitive wage. Since $\frac{\eta_w^L(w^M)}{1+\eta_w^L(w^M)} < 1$, it follows that $(w^M) < (w^*)$.

In this case, as long as the minimum wages are lower than (w^*) the monopsonist has an interest in keeping producing without reducing labour demand.

Singh & Zammit (2004) point out that minimum wage is not included in the ILO core labour standards, because it may have significant implications for the comparative advantage of low wages and low labour standards in developing countries. The challenge in the implementation of a global minimum wage is the optimal level of it, as it is imperative that it does not disturb differences in productivities among countries. Minimum wages meant to alleviate the pressure on wages stemming from other non-productive factors, for example monopsony power, will not disrupt the effective allocation of labour and the level of production as long as they are not set higher than the competitive wage (w^*) .

Singh & Zammit (ibid) conclude that ILO's core conventions are too restrictive and that the core should be wider to include freedom from hunger, poverty and the right to decent living. This is in line with the goal of human development to which the international community has committed to itself. Kabeer (2004) suggests the implementation of a universal social floor that protects the basic needs of all citizens, independently of the characteristics of their working

arrangements (e.g. formal or informal). A ‘social clause’ enforced by the World Trade Organisation will only serve the needs of a minority, she concludes. Kabeer’s notion of social floor is not conceptually different from a minimum wage that successfully reflects the differences in productivities among countries and people.

The creation and implementation of a non-disruptive global minimum wage law is an ambitious project in which international politics will play a major role. One crucial point is to determine which international organisation is going to enforce such a regulation and whether or not the governments should be held responsible if international firms fail to comply with the law.¹⁶ These questions are beyond the scope of this thesis even if they are decisive for economic mechanism to function. However, the importance of the analysis relies on the recognition of such mechanisms.

4.3 Preferred workers

Women participate more in the labour market today than before (United Nations, 1995; World Bank, 2001; Tzannatos, 1999), gender wage gaps appear to be narrowing overall (World Bank 2001), and the new export-sector industries seem to be more gender-blind than the few, non-competitive industries in domestic markets. All this empirical evidence gives a promising impression of a reduction in discriminating attitudes towards women on the basis of sex.

There are, however, claims of a newer form of ‘discrimination’ of women. The signatories stated it in the following way in the Beijing Declaration (United Nations, 1995:65):

‘In many regions, women’s participation in remunerated work in the formal and non-formal labour market has increased significantly and has changed during the past decade. (...) Due to, inter alia, difficult economic situations and a lack of bargaining power resulting from gender inequality, many women have been forced to accept low pay and poor working conditions and thus have often become preferred workers.’

It is challenging to understand these claims in terms of discrimination, because female workers are not being denied entrance to the labour market. Women are predominantly getting the jobs in the new industries. In Bangladesh for example, the export oriented garment manufacturing in the early 1980s created the first generation of female factory workers (Becker, 1993). It is, however, the disadvantaged position of women in labour markets which

¹⁶ Proponents of the implementation of the social clause want the state to be responsible

is becoming their ‘comparative advantage’. Findings elsewhere than Bangladesh corroborated this new ‘comparative advantage of women’ (Kabeer, 2004).

The disadvantaged position of women is a result of lack of economic alternatives that can create monopsonic labour markets, allowing firms to remunerate workers according to non-productivity factors such as the elasticity of labour supply and reservation wages. In addition to the lack of economic alternatives, there are social arrangements that influence women’s reservation wages, as those we distinguished above. Furthermore, there still exist some less ‘sophisticated’¹⁷ disadvantages of women, which, are described by one woman working at a garment factory in Bangladesh:

‘ You see, as women, one of our wings is broken. We don’t have the nerve that a man has, because we know we have a broken wing. A man can sleep anywhere, he can just lie down on the street and go to sleep. A woman cannot do that. She has to think about her body, about her security. So the garment factory owner prefers to hire women because men are smarter about their opportunities, you train them and they move on. Even when he compares a small boy and an older girl, he will think, “she’s only a girl, she can’t wander too far away’ (Kabeer 2004).

The predominance of women in the mobile industries characterised by low skill levels and low wages (resulting partly from non-productive factors) contribute to keep women in poverty. As we saw above, the low wages observed in these industries and the ability of firms to move to other locations in response to regulations aimed at eroding monopsony power, reduce the firms incentives for investment in human capital of female workers. In that way, women’s disadvantaged position and the low wages that follow from it could prevent economic growth. Empowering these women, by balancing the power relations between female (as well as male) workers and firms, would promote economic growth by increasing the human capital of the country and not just maintaining unproductive jobs that hold female workers in what Seguino calls a ‘low skills –low-productivity trap’. This would again reconcile the goals of empowering of women and economic growth.

¹⁷ They are less sophisticated because while an uneven distribution unpaid work burden is still an issue in otherwise more gender equal societies as the Norwegian and women’s lower reservation wages is still a relevant discussion regarding minimum wages in OECD countries (Rubery & G 2009), the discussion on whether women are less smart than men seems rather primitive.

5 The United Nations and World Bank's strategies for the empowerment of women.

The motivation to understand the constraints that limit women's earning opportunities is to find ways to relax this constraints. The second research question of this paper is concerned with determining if the United Nations and the World Bank's strategies can overcome such constraints. An important clarification is needed. The international organisations mentioned in the introduction have committed themselves to the goal of empowerment of women. They have developed strategies that aim for the empowerment of women in a broader understanding of the concept that the one used in this paper. My paper concentrates on the empowerment of women in terms of the improvement of their earning opportunities.

In this chapter, I respond to three sub-questions needed to clarify whether the organisations' strategies for empowerment of women can overcome the constraints that limit women's earning opportunities. When establishing the ability of the organisations' strategies to overcome the constraints on women's earning opportunities, we need first to make sure that their conceptualisation of women's empowerment includes the aspect we are here concerned with, namely the improvement of women's earning opportunities.

The first question is whether, by committing to the goal of the empowerment of women, the international organisations are aiming for the improving women's earning opportunities. The remaining two questions emerge from the potential conflict between improved earning opportunities and economic growth. In the previous chapters of this paper, we have considered this conflict as a potential constraint on earning opportunities based on the assumption that economic growth could be prioritised over improved earning opportunities. The second question is if the organisations are sufficiently aware of the potential conflict between improved earning opportunities for women and economic growth. Finally, the third question we need to answer is whether or not the organisations have any criteria by which they decide whether to prioritise the improvement of earning opportunities or economic growth in the case of a conflict. The answer to these questions, thereby providing a background to answering the second research question, builds on the analysis of three strategic papers from the UN General Assembly and the World Bank. I shall start by presenting the strategic papers on which my answers are based on.

5.1 The strategic papers

In total, three documents were revised. From the UN General Assembly we consider the Beijing Declaration and the Platform for Action annexed to it (United Nations, 1995). This Declaration was adopted in 1995 at the Fourth World Conference on Women. From the World Bank, two strategic papers are reviewed: ‘Integrating Gender into the World Bank’s Work: A strategy for Action’ (World Bank, 2002) and ‘A World Bank Group Action Plan: Gender Equality as Smart Economics’ (World Bank, 2006).¹⁸

The Beijing Declaration and the platform of action annexed to it has a justified place in this review because The Fourth World Conference on Women in 1995, which the Beijing Declaration is the major result of, is extensively regarded as the point of reference for the international efforts on gender equality and the empowerment of women (UN DESA, 2007). According to the World Bank, the Bank’s attention to gender equality dates back to the 1970’s. The documents included in this review are the two major strategic papers that the Bank has formulated (World Bank, 2011).

The Beijing Declaration is the widest of all documents in scope and the recommendations made include actions to be carried out by governments, international organisations and civil society. The World Bank’s documents are of an internal character. In their strategy paper from 2002, the Bank aims to establish a strategy to integrate gender-responsive actions into its assistance work. The paper does not spell out concrete actions to be carried out by the Bank, governments, civil society or other donors in its client countries. It is rather an overall strategy that will, through cooperation among the parties, ‘diagnose gender-related barriers to and opportunities for poverty reduction and sustainable development; and will then identify and support appropriate actions to reduce these barriers and capitalise on the opportunities’ (World Bank, 2002: XII). The main contribution of the strategic paper to this review is the concise presentation it makes of the empirical links between gender equality and economic growth, what they call the ‘business case for mainstreaming gender’. The Action Plan from 2006 seeks to ‘advance women’s economic empowerment in the World Bank Group’s client countries’ (World Bank, 2006:1). In this strategic plan, the Bank provides some valuable

¹⁸ This strategic paper was published in 2002, but the strategy was endorsed by Board of Executive Directors on September 2001. The World Bank refers to it as the *Gender Mainstreaming Strategy Paper* from 2001.

examples of interventions in key markets that would improve the economic empowerment of women in terms of ‘making markets work for women’ and ‘empowering women to compete in the market’ (ibid., p. 4).

5.2 Empowerment of women & earning opportunities

By committing to the goal of empowering women, are the international organisations aiming for improving women’s earning opportunities?

We are interested in answering this question because it could be the case that the organisations’ understanding of empowerment of women excludes the improvement of women’s earning opportunities. If they organisations do not consider the improvement of earning opportunities as a component of women’s empowerment then our evaluation of the strategies would be incorrect. This is, of course, because we would be assessing the strategies in terms of a goal they never intended to achieve.

Based on the strategic papers at hand, we can conclude that the organisations consider the improvement of earning opportunities as an important component of the empowerment of women. In the Beijing Declaration, there is an explicit demand for higher wages and the improvement of working conditions for low-skilled workers. The World Bank focuses on creating opportunities for women so that they can earn an income. The Bank does not explicitly advocate for higher wages for female workers, but it limits its focus to factors that increase workers’ productivity (e.g. health and education). The Bank also puts emphasis on the need to alleviate domestic duties and unpaid work for women and by that liberating working hours that women can use to generate income. The Bank seems to assume that increases in productivity will lead to better income. In chapter 3, we saw that this is not necessarily true in the case where the distribution of power between employers and suppliers of labour is very asymmetric.

5.3 Empowerment of women & economic growth

The second question is if the organisations are aware of the potential conflict between improved earning opportunities for women and economic growth. We have seen that the organisations include the improvement of earning opportunities in their concept of empowerment of women. In this section, I summarise the economic mechanisms I have identified in the strategic papers and which, according to the organisations, link empowerment of women and economic growth. By looking at how the organisations consider the relationship between empowerment of women and economic growth, we seek to discover whether or not the organisations recognise the potential conflict between improved earning opportunities and economic growth. It is important to determine if the organisations explicitly recognise this potential conflict because in the positive case, it is relevant to compare their analysis of this conflict with ours. It will furthermore be interesting to evaluate their solutions to such potential conflicts, if solutions are stated.

I will concentrate on the direct economic links between the empowerment of women and economic growth and ignore the correlation that might exist between women's empowerment and other pro-growth conditions such as good governance.

The first thing to notice in these strategic papers is that both organisations refer to the empowerment of women as having a positive impact on the economy. The UNDP states that 'gender equality also makes good economic sense' (UNDP, 2011a) while the World Bank asserts that 'the empowerment of women is smart economics' (World Bank, 2006).

The Beijing declaration

The recommendations for action expressed in the Beijing Declaration and Platform can be divided into three categories; 1) measures aimed to promote the mainstreaming of the gender perspective, 2) highlighting the importance of and need for further research of gender issues, and 3) actions that facilitate the full participation of women in all spheres of society and access to productive resources, opportunities and public services.

I focus on the third category of actions and more specifically the recommendations aimed at enhancing women's participation in economic life and access to productive resources.¹⁹ I revised all the paragraphs of the Platform of Action annexed to the Beijing Declaration and recognised four areas that the Declaration seeks to influence in order to promote the economic opportunities of women:

- Health
- Education and training
- Institutions
- Social arrangement and norms that constrain women's participation (e.g. recognition of the productive character of unpaid work as for example childbearing and housework)

The World Bank

In the business case strategic paper 'Integrating Gender into the World Bank's Work: A Strategy for Action', the Bank revises the empirical links of gender equality to growth and concludes:

'The primary pathways through which gender systems affect growth are the productivity of labour and the allocative efficiency of the economy, specifically through:

- 1) Investments in human capital (especially girls' and women's education and health);*
- 2) Investments in physical capital (especially women's access to capital or to the formal sector employment it creates); and*
- 3) The functioning of markets and institutions.'*

¹⁹ A few examples of Paragraphs regarding women's participation in economic life and access to productive resources: 26, 27 and 35 in the Beijing Declaration. The following paragraphs are to be found in the platform of action annexed to the Declaration: 21 (about remunerate and unremunerated work at home), 51 (about institutional constrains to economic participation), 55 (on the productivity capacity of woman) and 165(j) (on the policies regarding savings, credit and lending mechanism for women).

The effects of investments in human and physical capital on productivity mentioned by the World Bank are well known in economic growth theory. The early Solow (1956 in Ehrlich & Murphy, 2007) model of economic growth treated labour and physical capital as reproducible factors of production. The model focused mainly in the contribution of these factors to growth. Early applications of this model attributed the large unexplained residual observed to improvements in technology. With the eventual conceptualisation of human capital, researchers were able to explain a larger share of the determinants of growth (Ehrlich&Murphy, 2007). The improvements on growth theory changed the assumption that labour was static and that it was not possible to augment it (Becker, 1993). Medical care, education and training are some ways to improve the human capital of workers. Ehrlich and Murphy point out that the ‘human capital revolution’ has move the attention away from focusing solely on physical capital investments and placed people at the centre of the economy (2007).

The Bank highlights the results of Tzannatos (1999). In that paper, Tzannatos evaluates the inefficiencies stemming from persistent gender differential in the labour market. He concludes that the improvement in women’s labour market outcomes and less segregated labour force (a distinctive feature of the labour market) can increase output and welfare of women and men. In this way, reallocation of workers across occupations will enhance growth.

The economy will also be more efficient when markets and institutions function adequately. Institutions can promote women access to productive assets such as land or credit. The well functioning of markets will, as economic theory suggest, produce higher levels of output. The Bank gives the example of labour laws, allegedly created in order to protect women, and points out that such laws can result in rigidities in the allocation of labour and create inefficiencies. The rationale behind economic theory is that competitive markets will yield efficient outcomes. An example not given by the World Bank is the case of imperfect markets, where regulation is needed to correct for such imperfections. In chapter five, a model of an imperfect labour market is presented. In that case, regulation will be what could bring the market closer to the competitive case.

Summarising, after revising the organisations’ strategic papers, I arrived at the conclusion that the ways the UN and the World Bank connect empowerment of women to economic growth are quite similar. The well-known argument that investment in human capital yields gains in economic performance was supplemented by four other channels through which the

empowerment of women is expected to encourage economic growth. Of the total five, just three of the links that have been recognised can be said to be gender-specific. The first two links listed below are equally applicable for the empowerment of men, if he was deprived of education, health or with limited access to productive assets as, for example, his own time, land, credit opportunities etc. The emphasis the organisation put in women, is that there are women who traditionally have less access to education, health, etc.

The channels through which, according to the organisations, women's empowerment benefits economic growth are:

- by increasing the human capital stock of a country;
- by increasing of size of the labour force;
- by increasing the human capital of the next generation, as women improve their traditional tasks as caregivers and motherhood;
- by improving savings and consumption choices, as there are gender differences in the use of income and capital;
- by improved usage of natural resources, as women and especially indigenous women possess gender-specific knowledge regarding the use and management of natural resources. This is an argument find in the Beijing Declaration, but not in the Business Case from the World Bank.

None of the papers analyse the potential contradiction between higher wages and output created by the mobility of firms. The UN declaration in several passages denounces that wages are kept down by the asymmetries of power between employers and suppliers of labour. The World Bank does not write about it. When evaluating the strategic papers, we will not necessarily expect them to include a strategy that includes the regulation of capital movements (as proposed in chapter 3) or the implementation of a global minimum wage (as proposed in chapter 4) in order to empower women. This evaluation is done in chapter 6.

5.4 Empowering of women or economic growth

The last question I posed at the beginning of this chapter was: Do the organisations have any criteria by which they decide whether to prioritise the improvement of earning opportunities or economic growth? This question is relevant because the potential conflict between earning opportunities and economic growth could limit the earning opportunities of women if economic growth was to be prioritised.

The organisations appear to differ in the way they justify the goal of the empowerment of women and the priority they give to it in relation to the goal of economic growth. Consider the following statements:

From the Beijing Declaration (1995:7):

'[...] Equality between and women and men is a matter of human rights and a condition for social justice and is also a necessary and fundamental prerequisite for equality, development and peace [...]'

From the World Bank's Strategy for Action paper (World Bank, 2002:1)

'Gender equality is an issue of development effectiveness, not just a matter of political correctness of kindness to women. [...] The need for a new strategy arises both from the evidence that gender plays an important role in determining economic growth, poverty reduction, and development effectiveness, and from the less-than-systematic integration of gender concerns into the Bank's work to date.'

They statements can be compatible, but they do not necessarily have to. The apparent differences in the argumentation for the empowerment of women (i.e. gender equality) between the organisations can be seen as differences in the way they value the goal of gender equality and its priority in relation to the goal of economic growth. Goals in general can be understood as having an intrinsic value, or an instrumental value – goals to be achieved as a means to fulfilling superior goals.

The statement from the World Bank seems to be following a rationality of the second type; gender equality in order to achieve economic growth. The United Nations approaches it from the human rights and social justice perspective. It can be discussed whether there is any ranking among the goals mentioned in the first statement or not, but economic growth is not mention and, because of its absence, we could imply that it is not considered a superior goal than the ones explicitly mentioned in the statement. One might argue that the concept of

economic growth is equivalent to the concept of development in the first statement, and thereby, argue that gender equality is a prerequisite to economic growth (because it is said to be a prerequisite for development). However, the UN through its Development Program has coined, since 1990 (UNDP, 1990), the concept of ‘Human Development’. The concept is summarised to be ‘a development paradigm that is about much more than the rise or fall of national incomes, [...] it is thus about much more than economic growth, which is only a means —if a very important one —of enlarging people’s choices’(UNDP, 2011b). A last case: if both gender equality and economic growth are prerequisites for development, then we cannot establish whether gender equality is more important for development than economic growth or vice-versa. We can conclude that for the United Nations, the goal of gender equality does not earn its value (and justification) from being a way to achieve economic growth. Yet it is not clear whether the Beijing Declaration considers gender equality as goal with purely intrinsic value. Gender equality is therefore not of a lower rank in importance than economic growth according to the Beijing Declaration.

Stephanie Seguino (2006b) revises the one report from which the strategic paper from 2002 gets the conclusion that ‘gender inequality retards economic growth and poverty reduction’²⁰ (World Bank, 2002:6) and compares the approach in it with that of the Beijing Declaration. Seguino highlights the differences between them and claims that the efficiency argument used by the World Bank is needed to assure that the papers are consistent with the economic principles, different to the human rights principles, that govern the Bank’s operations. She goes further and explains that the efficiency arguments have been designed to ‘win over the neoclassical macroeconomists at the Bank who have been unwilling or uninterested in considering the role of gender’ (Seguino, 2006b:10).

An alternative way to explain the different approaches to gender equality is to consider the dimension of *human* development on which each of the organisations function. While the UN is pursuing *Human Development*, the World Bank ‘focuses on achievement of the Millennium Development Goals (MDG) that call for the elimination of *poverty* and *sustained*²¹ development’ (World Bank, 2011).²² The focus of the World Bank is narrower than that of the UN as poverty elimination is just one of the eight MDG. The World Bank’s mandate to

²⁰ Engendering Development - Through Gender Equality in Rights, Resources and Voice

²¹ Sustainable development refers to development that meets the needs of the present without compromising the ability of future generations to meet their own needs. The concept encompasses both environmental and economic sustainability.

²² Italics added

promote *sustained* development does not necessarily imply the broader concept of human development. With this in mind, it is easy to understand that, due to the scope of their activities, the Bank's immediate concern is economic growth. There should not be any confusion on what the role of each of the organisations is. The World Bank is one of the specialised agencies of the United Nations, and as such, the Bank explicitly recognises the commitments that their member states made at the Fourth World Conference, at which the Beijing Declaration was adopted, and at the United Nation Millennium Summit which main commitments are summarised by the eight MDGs (World Bank, 2002; UN DESA, 2007). Being this is the case, the World Bank and its members, being already committed to the Beijing Declaration and the MDGs, cannot reduce the goal of gender equality to an instrument for achieving economic growth.

The discussion of the instrumental vs. intrinsic value of goals would be less relevant if there never was a contradiction of goals and both could be realised simultaneously. This is because people or governments would not have to rank them in order to prioritise the one over the other.

The concluding point here is that, even as the World Bank internally needs the efficiency argument to be interested in gender equality, the World Bank's member states cannot easily decide which goal to prioritise. The decision should be based on which of the goals will lead to the higher goal of Human Development.

Throughout this paper, we have been looking at the special case where an attempt to alleviate women's conditions by increasing their wages levels will jeopardise economic growth. In that situation, the way in which the international organisations and governments give value to and prioritise the goals of gender equality will be of high relevance for the decision being made and the outcomes that follow.

The short discussion on the rank order of goals showed that the organisations do not have a well defined criterion to determine which goal, economic growth or gender equality, should be the first concern of a decision-maker. In the lack of such a rule to follow when facing a difficult choice, the best the organisations can aim for is to avoid the contradiction of goals. In this paper, I concentrate on identifying the mechanism that creates the conflict. It is assumed that a decision-maker will gain from identifying this source of conflict if it helps him/her to overcome it and harmonise both goals.

6 The organisations recommendations

In this chapter, I, once again review the strategic papers revised in chapter 5 in order to examine whether or not the organisations include recommendations aimed at correcting for other factors than productivity which press female wages down. In chapters 3 and 4, we came to the conclusion that the mobility of firms and the lack of alternative economic opportunities for women and men may pressure wages down in the export oriented, labour intensive industry. In that context, we identified that while differences in power between firms and workers affect both women and men, women would receive the lowest wages because of their lower reservation wages. We highlighted three sources of low female reservation wages: 1) Women's character as outsiders to the labour market, implying that in the absence of a minimum wage they may want to bid down their wage in order to enter the newly established market; 2) the conception of women's wage as a secondary source of income to the household; and 3) women are expected to yield lower returns to human capital investment because of their family duties and unpaid work.

In chapter 3 and 4, we identified two concrete theoretical possibilities for relaxing the constraints on wages stemming from non-productive factors: the asymmetric power between firms and workers and women's lower reservation wages. These theoretical possibilities were a global minimum wage that does not disturb the comparative advantage among countries and/or global regulations of capital mobility.

As mentioned in chapter 5, two main strategic papers for the World Bank were revised: 'Integrating Gender into the World Bank's Work: A Strategy for Action' published in 2002 and 'A World Bank Group Action Plan: Gender Equality as Smart Economics' from 2006. The strategy of the first strategic document focuses on enhancing country-led, country specific strategies for removing gender patterns that prevent growth, poverty reduction and human well-being. The World Bank emphasises the constraints to growth and human well-being at the country level, but it misses the global dimension of the empowerment of women. As we have seen throughout this thesis, globalisation defines the characteristics of women's working conditions in developing countries in early stages of industrialisation. In this case, it is necessary to consider strategies for empowerment of women in this context. The World Bank's 'Integrating Gender into the World Bank's Work: A Strategy for Action' paper does not cover this dimension.

The more recent strategic paper, ‘A World Bank Group Action Plan: Gender Equality as Smart Economics’ from 2006, emphasises the World Bank’s trust in market mechanisms, and expresses its commitment to ‘making markets work for women’ and ‘empowering women to compete in markets’. If it is the case that the labour market of low-skilled labour in developing countries presents monopsonic features and an asymmetric bargaining power keeping women in poverty on other grounds than their level of skills, then there is a case for intervention in order to make the markets work for women. In this strategic paper, the Bank presents some valuable examples of interventions in key markets such as the labour market. The World Bank does not consider global regulation of capital movements or the establishment of a minimum wages as a measure to be taken for empowering women.

In the Beijing Declaration, the participating Heads of State recommended actions to be taken by governments, civil society and international organisations. The Beijing Declaration explicitly recognises that adverse economic environment affect the working security of workers negatively, especially for women. ‘Women often have no choice but to take on employment in (...) unprotected home-base production’ (United Nations, 1995:10). In addition, the Declaration states that women enter the labour market in what they call under—remunerated jobs. This narrative can be explained in terms of our basic model of monopsonic labour markets, and in terms of differences of bargaining power between workers and firms.

The Beijing Declaration does not link the precarious situation of some female workers in developing countries to the liberalisation of capital, which allows for flows of foreign direct investment into low sunk cost industries and the powerful position it provides to mobile firms. The Declaration encourages the adoption of the International Labour Organisation (ILO) conventions on labour rights. As we saw in chapter 4, the core conventions on labour rights will improve the working conditions in the formal sector, but they are not enough for what is needed to protect work in more ‘flexible’ forms of production as home-based subcontract arrangements. The recommendations made by the Beijing Declaration are mostly directed towards governments. In that sense, the Beijing Declaration also lacks recommendations that are able to influence the global dimension of the constraints on wages in mobile industries.

7 Conclusion

In chapter 2, a set of conditions that may create a conflict between the empowerment of women and output was presented. Out of this specific context, women's empowerment was operationalised as an increment in wage levels in foreign mobile firms. Distinctive features of mobile firms are that they are engaged in the production of export-oriented goods, and that these firms have low sunk costs because the production process is labour-intensive and requires low levels of skills. It is the low sunk costs that allow firms to move their operations to other locations. This is especially harmful for developing countries in early stages of industrialisation as they depend on foreign capital in order to produce. Furthermore, Chapter 2 also contains the presentation of a short-run, structuralist model by Seguino and Blecker (2002) that formalises the case of a trade off between higher wages and output. Of special interest in that section is the identification of an 'optimistic' scenario, in which the conflict between higher wages and economic growth is overcome. In chapter 3, the ability of firms to leave a location is identified to be the most influential parameter in order to produce the optimistic scenario described in chapter 3. We therefore concluded that global regulation of foreign direct investment movements will empower women and increase their bargaining power against firms. Chapter 4 analyses how the lack of alternative economic opportunities for women and men can pressure wages in the mobile industry down. In that section, the possibility that low wage levels depend on other factors than productivity becomes clear. While differences in power between firms and workers affect both women and men, women are affected the most because of their lower reservation wages. The implementation of a global minimum wage that does not disturb the comparative advantage will reduce the power differential between a monopsonist and suppliers of labour. A global minimum wage will bring wages closer to competitive wages that reflect the productivity of workers. Chapter 5 sets the grounds for our evaluation of the organisations' strategies in terms of their ability to improve women's earning possibilities. Finally, chapter 6 revises whether the strategic paper includes recommendations aimed at balancing the power differences between firms and workers and alleviating the gender-specific reasons for women to have lower reservation wages than men. I conclude that both the Beijing Declaration and the strategic papers from the World Bank fail to address the constraints that limit women's earnings opportunities stemming from the mobility of capital across borders and the monopsony power that the firms

may possess in the labour markets in developing countries. The organisations miss the global dimensions of such constraints.

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