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The gender perspectives of the financial crisis

Written statement*

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The Global Economic Crisis and its Gender Implications

I. Introduction

The global economic crisis now underway has two key aspects that policymakers and Governments must address. The first is the dramatic decline in aggregate demand, leading to extensive destruction of jobs and livelihoods. The second is the problem of a credit freeze, which has led to a virtual halt in lending for investment and consumption. My comments will be focused primarily on the problems on the demand side of the economy – the sharp drop in spending by businesses and households that has led to massive layoffs which have further exacerbated the crisis, the gender dimensions of these demand-side problems, and policy responses that can stimulate growth with gender equity.

II. One Source of the Crisis: Rising Global Inequality and Insufficient Demand

Good policymaking requires an understanding of the precipitating factors that led to crisis. A second key to ensuring an effective response is to obtain clarity on what the critical immediate targets of policy should be. I discuss first the precipitating factors and then consider the gender implications of a response to this crisis.

A central feature in the crisis and therefore key to its long term resolution is the growth of inequality within and between countries. One window into this problem is to consider the gap between wage and productivity growth. Productivity grew in most countries over the last three decades, and this should have led to rising wages and incomes. But instead, the share of national income going to workers has been falling in the United States, Europe, Sub-Saharan Africa, the Middle East, Latin America and the Caribbean.[1] The flip side of this trend is that profits have been rising, and inequality widening.

The cause of this growing gap is related to the increased mobility of capital, among other factors. Corporations are increasingly able to respond to local cost pressures by relocating factories overseas or outsourcing production. This has undermined the bargaining power of workers, and led to a slowdown in wage growth, and in some cases, an absolute decline in real wages. Firm mobility has driven down wages not only in high income but also semi-industrialized economies.[2] This creates a macroeconomic problem: as wages fall, or wage growth slows, workers reduce their consumption and aggregate demand falls. In some cases, low and middle income groups have accumulated debt in order to finance their current living standard, and in the United States in particular, the consequences of this are apparent in the housing crisis. The wave of foreclosures in the United States, however, was only a symptom of the bigger problem of stagnating incomes for workers and debt-financed consumption. This has led to the central problem the global economy faces then, which is one of insufficient global demand. Without sufficient buying power on the part of workers, businesses have little motivation to invest, expand output, and create jobs.

A second aspect of this problem relates to the rise in the share of income going to profits on financial activities and interest payments.[3] In part, the widespread adoption of inflation targeting (the use of monetary policy to keep inflation low and close to zero) by central banks facilitated the rise of income going to wealth holders. High interest rates and low inflation raised the real rate of return on their financial investments. But it also meant that borrowing costs for households and businesses were high. As a result, it has limited job growth, further exacerbating the problem of joblessness and holding down wages. This global assessment varies by region. East Asia is an important exception to trends of falling or stagnating incomes and joblessness.

The redistribution of global income to wealth holders and corporations suggests that a key feature of a policy to rectify the global economic crisis is one that first, focuses on full employment policies, and second, seeks to resolve the problem of unequal income distribution that has led to insufficient demand. To reiterate, global joblessness is one of the central problems that macroeconomists must deal with. The most effective policy response is one that stops the destruction of jobs and sets the stage for a resumption of employment growth.

III. Gender Effects of the Global Slowdown

Before turning to a discussion of some responses to address employment goals, I would like to describe the trajectory of the crisis and address the gender aspects of job losses and the credit freeze.

The slowdown, which is projected to be most severe in advanced economies (in terms of decline in GDP), is anticipated to have ripple effects on middle and low income countries via declines in the demand for manufactured exports, plummeting tourism expenditures, and a drop in foreign direct investment. Another channel by which developing countries will be affected is the drop in remittances from family members in developed economies. The latter can be very significant. For example, remittances to the Africa region are almost 2 percent of GDP, and globally totaled roughly $238 billion in 2008 (from developed to developing countries).[4] Anti-immigrant attitudes may very well lead to immigrants being targeted for layoffs, and in any case, many work in sectors most likely to be affected by the downturn. Predictions for the Africa region are that growth rates will be halved in the coming two years.[5]

Employment losses or a slowdown in job growth can be expected to contribute to growing unemployment. And some developing countries will face balance of payments difficulties since their major trading partners – the advanced economies – will be in deep recession. The loss in public sector revenues will put downward pressure on those budgets, and the effect on women will depend on how carefully those cuts are made so as to avoid disproportionately harming women and children.

The differential impact on women versus men will vary across countries. The effects depend on the gender job segregation in a country. In developed economies, in which men have dominated in construction and durable goods manufacturing industries that have been hardest hit by sharp drop in demand, mounting job losses have affected men more than women. But women, too, will be affected in coming months. Female joblessness can be expected to rise disproportionately as public sector budget cuts are made, since women are disproportionately employed in education, health, and social services.

In developing countries in which women are concentrated in export manufacturing industries, such as in Latin America and Asia, or in tourism in the Caribbean, the effects on women will be greater than for men. This is particularly worrisome, given the large percentage of female headed households in the region, almost 40 percent in the Caribbean region, for example.

The impact on men's and women's well-being of job losses will differ in developed economies. Men are better positioned to weather the crisis. They have higher paying jobs, more assets and wealth; their jobs are more likely to offer benefits and be covered by unemployment insurance.

Women's jobs pay lower wages, in part because women tend to have a higher rate of part-time employment, and are often not covered by social safety nets. Moreover, in countries without social safety nets, the impact on women is even more severe. Female-headed households are at greatest risk, with few if any savings to weather the crisis, and limited ownership of wealth and other assets, as compared to men.

Women and children are also likely to suffer substantially because, when men lose their jobs, they are unable to contribute financial support for their children, and in particular to mothers in female-headed households. During such times, women try to shield children from economic insecurity but are not able to fully protect them, on average. The long run costs to society of under-investment in children are well-documented.

Whatever sectors are most harmed by the economic crisis, in some countries, gender norms are such that women are first fired, because men are perceived to be the legitimate jobholders when jobs are scarce. A global survey conducted in 2005 found that almost 40 per cent of those interviewed agreed that when jobs are scarce, men have more right to a job.[6] Experience with the Asian financial crisis confirmed this tendency, with women laid off at 7 times the rate of men in the Republic of Korea. We can expect this to be a dominant feature of layoffs in a large number of countries in the current crisis, and it is likely that in developing economies, many more women will be pushed into the informal sector as a result. Official unemployment data are likely to miss this trend because, even if underemployed, women will be counted among the ranks of the employed in labor force surveys. In developed economies, there is evidence that some unemployed women withdraw from the labor force as a response to joblessness. This too will result in the underestimation of the unemployment effects of the crisis on women.

Ethnic groups that are less powerful and immigrant groups will suffer in many of the same ways because they are similarly situated in the paid economy as women. That same global survey found that 72 per cent of respondents believed that employers should give jobs to nationals over immigrants when jobs are scarce.[7] Europe's immigrants are likely to disproportionately bear the impact of the crisis with consequent negative effects on remittances to developing countries.

The effect on families of the loss of income through remittances can be harsh and gendered. Studies in Uganda have found, for example, that when household incomes decline, girls are likely to be withdrawn from school, and withdrawal rates rise for older girls. Boys' education is largely sheltered from such shocks. Similar evidence of the gendered effect of economic crisis on education was found for Sub-Saharan Africa in the 1980s.[8] It will be important in this crisis therefore to develop mechanisms to respond to the reduced ability of parents to send girls to school.

The effects on women and therefore children will also be transmitted through cuts in public sector budgets, due to falling tax revenues and foreign aid. In Africa, for example, more than 50 per cent of the total public health spending comes from aid commitments. Important groups like the *Global Fund to Fight HIV/AIDs, Tuberculosis, and Malaria* already are facing funding shortfalls. Women who bear a huge burden for care of the sick in Sub-Saharan Africa will see those pressures mount.

IV. Responses to the Crisis

Two key approaches to addressing the global economic crisis are via fiscal policy and social safety nets, and a reformed role for central banks.

A. Fiscal policy, stimulus packages, and the social safety net:

The poorest of countries will not have the ability to engage in fiscal stimulus to generate jobs. However, developed and middle income countries do have the means to do so. In those cases, there are several criteria that should guide expenditures. Stimulus packages should ensure that spending is gender equitable in job creation. Concretely, that means Governments should not only spend on physical infrastructure to create jobs and stimulate demand. Jobs in that sector largely employ male workers, and women will have little benefit from such job creation.

Governments should therefore also allocate funding for social infrastructure investment, in areas such as public health, education, child care, and other social services. This has two benefits. First, this will generate jobs for women, since women are heavily represented in those occupations. Second, directing funding to activities that help women with their care burden – e.g., child care services, contraception, and school feeding programs – can attenuate some of the negative effects of the crisis on them and the children they care for. In countries with social safety nets, Governments can alter rules of unemployment insurance to ensure coverage of the type of work women do, that is, part-time and intermittent. Programming should also focus on alleviating the problem of parents withdrawing girls from school. Expanding and increasing payments in conditional cash transfer programs can help to reduce the incidence of this problem. These programs, already in place in a number of countries, can offer a rapid and targeted response to the crisis.

Establishment of independent fiscal oversight bodies with a quota for equal representation of women could help monitor expenditures and provide policy advice to ensure stimulus expenditures have gender equitable effects and reduce the possibility of political bias. Women's groups are likely to be able to develop a variety of proposals that will benefit women and children.

In some regions, such as Sub-Saharan Africa, where export demand will fall as a result of the decline in demand from the United States and Europe, balance of payments problems can emerge. Some countries may respond with currency devaluations. The negative effect of devaluations, however, falls heavily on women. Costs of imported food and medicines would rise, making it harder for women to make ends meet in the household. There are alternative approaches to this problem. In the short term, those imbalances can be addressed by drawing down international reserves. Estimates indicate that developing countries are holding excess international reserves (in order to meet the requirement of covering 3 months of imports) equal to about 1 per cent of GDP. Using that 1 per cent to alleviate short run current account stresses resulting from the crisis is a viable option.[9]

In the longer term, Governments in the list of Least Developed Countries can address the problem both of gender inequality and balance of payments stresses by directing government funding toward resources for women farmers. Examples include expanded access to credit (discussed in more detail below) and inputs, as well as technical assistance. This strategy has big payoffs. It is estimated that agricultural productivity would rise between 10-15 per cent in a number of Sub-Saharan countries if women farmers' access to inputs, credit and technical assistance were equalized with men's.[10] By increasing agricultural productivity, Governments help to raise output and lower food prices. This reduces inflationary pressures and the demand for imports. The productivity benefits are not likely to be felt in the short run. However, this type of targeted expenditure that raises income over the medium to long run will be cost effective, generating tax revenues to cover the cost of public expenditures. Moreover, investments that benefit women farmers in the short run will raise their income, helping attenuate the other negative effects of the crisis that they will experience.

In cases where government budgets have to be cut, officials can implement these by cutting worker hours or instituting unpaid furloughs rather than eliminating jobs. Government can also play a leadership role, encouraging businesses to adopt a similar approach in order to avoid massive job layoffs. This approach is preferable because it spreads the costs of the job losses more evenly across households. Although more households will have lower incomes as a result, the macroeconomic benefits are substantial. With each household losing a little income, average household saving rates will fall, and spending will be prevented from falling further than if income losses were concentrated in a smaller number of households. This also reduces pressure to fire women first.

For poor countries, commercial borrowing will be in decline, making fiscal stimulus more difficult. Official external finance will be required. New estimates by Nancy Birdsall estimate that one trillion dollars in aid is needed, and the World Bank and IMF currently have those resources.[11] Developed country governments also need to maintain their bilateral aid budgets. Poor countries with limited fiscal space should also focus on financial markets and credit (discussed in more detail below), and in addressing budget imbalances, should pay attention to the gender implications of any cuts.

In all cases, addressing these problems with tax cuts on business and high income households should be avoided. This will not result in spending and job creation. These funds instead are likely to be used to retire debt or will be saved with no impact on the macroeconomy except to worsen the budget deficit.

The suggested expenditures on the social infrastructure, aside from cushioning women and children, have the added effect of contributing to long run health of the economy by raising productivity. That is, by directing public sector spending at job creation and social safety nets that protect women, Governments are in effect financing development for the future, generating increased productive capacity. Seen in this way, social safety net spending not only has short run benefits. It is also a longer run investment in the country's social infrastructure. In short, it is not only humanitarian. It makes good economic sense.

B. Credit policy

The current crisis provides an opportunity to reconsider the role of central banks. Historically, monetary policy relied on broader set of goals that included full employment, and a wide variety of instruments, including credit allocation to develop social sectors of the economy, credit allocation techniques to develop dynamic industries, capital management to control inflows and outflows of international capital. Central banks in the recent period have not used, and indeed have been discouraged from using these instruments by the World Bank and IMF. Instead, central banks have narrowed the scope of their functions to focus almost exclusively on inflation, and in the process, have become independent of government policymaking.

Lack of policy coordination between Governments and central banks has made it difficult for countries to reach their development goals by stimulating investment in key sectors of the economy and addressing such problems as women's unequal access to credit. The central banks' focus on inflation targeting – that is, keeping inflation low and close to zero – has two flaws. Inflation targeting has inhibited job creation and thus poverty reduction. The second flaw is that many of the problems of inflation in developing countries in particular are due to supply side bottlenecks – high food production costs, poor transportation networks, high labor costs due to pervasive poor health. Those are problems that can be best addressed by public investment, not tight money policy.

Further, evidence shows that inflation rates below 15 per cent to 20 per cent do not have harmful effects on economic growth.[12] The result is that inflation targeting has been not only unnecessary in some cases; it has also been socially costly and has contributed to the insufficient demand problem identified earlier in this paper. There is also evidence that women have suffered disproportionate job losses due to inflation targeting in the Least Developed Countries.[13] That implies that subordinate ethnic groups are first fired, as a result of the jobs losses that come with contractionary monetary policy due to inflation targeting.

Inflationary pressures are in any case receding due to the decline in global demand, with inflation in advanced countries predicted to fall to ¼ per cent this year and in developing countries, from 9 to 5 per cent. It is thus an ideal moment to rethink the role of central banks.[14]

The reformulated role for central banks should be focused on job creation. In order to expand employment opportunities, which would greatly benefit women, central banks could utilize expansionary monetary policy, development banking and credit subsidies, and modest capital management interventions. To undertake this effort, Governments would have to begin by outlining national goals for investment. These might include labour intensive production activities in developing countries with high unemployment, microfinance initiatives that support women's enterprises and cooperatives, or affordable housing projects. The set of goals would then determine the central bank's credit policy.

There are several tools of credit policy that could be used to attain the country's development goals. Government loan guarantees coupled with asset portfolio requirements would encourage banks to lend to targeted activities, such as labour intensive firms. The loan guarantees leverage low interest rates, since the Government has agreed to absorb some of the risk of the loans. Central banks might formulate a comprehensive development plan, including extending subsidized credit to small-scale agriculture, small- and medium-sized businesses, and large-scale businesses that can demonstrate their ability to promote significant increases in employment relative to their total spending. Women's enterprises and cooperatives could be targeted for such subsidies and the cost to the public budget will be limited, given women's strong track record for loan repayment.

V. Conclusion

Reviving the global economy will require policies that focus heavily on job creation, putting money into the hands of low and middle income households. As that income is spent, rising sales will give businesses the incentive to hire workers and expand output further.

But policies should also take a longer view. This crisis provides the opportunity to rethink the role of government in the economy. Key to effective government policy will be efforts to direct resources towards productive activity and away from speculation. Also important are measures to alleviate the downward pressure on wages that contributed to this crisis. Raising minimum wages is one strategy, though there are others. Creating jobs itself will help. As unemployment drops, workers are in a better position to bargain for higher wages and more benefits, thereby generating the income to buy back the goods and services that are produced. The largest share of low wage workers is women, so gender equality is likely to improve with this approach.

Addressing the economic crisis also requires a direct focus on women's well-being. Women are likely to be targeted first for jobs layoffs, but have the fewest reserves with which to shield themselves and their children from the drop in income. Targeting public sector spending in activities that employ women benefits not only them but also their children. It is also an investment in long run growth.

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