

Gender Equality and Inclusive Growth

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I would like to structure this presentation in 3 parts:

- Begin by looking at what we mean by inclusive growth
- Identify how gender (and specifically gender equality) has been treated in IG discussions
- Identify some macro-level economic policy issues (specifically with respect to trade, fiscal, monetary and exchange-rate) that we will need to contend with if we are to achieve gender equality and inclusive growth.

I. What is inclusive growth?

Many of us in this room are probably familiar with the genesis of the concept of inclusive growth: but briefly, the concept marks a departure from earlier development discussions (in the early 1990s) of pro-poor growth where the concern was primarily with the relationship between economic growth and poverty reduction. The concept of IG began acquiring currency in development circles somewhere in the mid-1990s (Birdsall, Lustig, Kanbur, Rodrik, Perotti) as people began grappling with the idea that it was not just poverty that was a development challenge but also growing income inequality. Evidence shows that a significant majority of the world's population live in societies that are more unequal today than 20 years ago. And strikingly, the evidence also shows that the sharpest increases in income inequality have occurred in those developing countries that were especially successful in pursuing vigorous growth and managed, as a result, to graduate into higher income brackets (UNDP 2015). In other words, economic growth has not necessarily resulted in "shared prosperity" (this is how the World Bank refers to IG).

So, to put it differently, the central concern of inclusive growth is with the issue of distribution (income distribution). Now, I just want to add that the measure of income inequality in most of these discussions was household income inequality (income distribution between households, so we see the introduction of alternative measures (indicators) to capture this – such as the Palma ratio¹. And when it came to policy – the focus was largely on redistributive policies (cash transfers – discussion of basic incomes, etc.). In other words, reducing income inequality between households through taxes and transfers.

Apart from income inequality between households, other economists – mainly heterodox economists – focused their attention on the functional distribution of income (the distribution between capital and labour or distribution by the market before taxes and transfers). This of course

¹ Palma ratio – is the ratio of the richest 10% of the population's share of gross national income divided by the poorest 40%'s share.

was the concept of distribution that concerned early classical economists. And if we are familiar with Piketty, he uses the concept of pre distribution.

So what has been happening to the wage share of GDP? Well, the data is simply striking: Labour shares have been declining on average across the developing world since the early 1990s. For the developing country group as a whole, average labour shares went from 52.6 per cent in the early 1990s to 48.9 per cent in the 2010s, for an average decline of 3.7 percentage points. Labour shares decreased an average of 4.1, 3.1 and 3.2 percentage points in Africa, Asia, and Latin America and the Caribbean, respectively (Braunstein 2019).

Why is it important to look at the functional distribution of income? I would argue that in the present context, there are at least 3 reasons for this:

First, as I mentioned, the functional distribution of income is a key driver of household income inequality. So, any policy framework trying to reduce household income inequality must begin by looking at what is happening to the share of wages in national income. This is because we cannot sustainably reduce household income inequality without seeing what is happening to labour in the production process to begin with.

Second, when we talk about the changing world of work – when we consider issues of automation, technical change, the Uberization of the economy, the “gig” economy, and the implications of these developments for employment creation, it is also important to examine what these imply for functional income distribution. To see what this implies for the wage share vs profit share. Because reducing income inequality will depend not just on employment creation but also on wage policy.

Third, focusing on functional income distribution takes you to the heart of growth and distribution policy: As Kanbur puts it, distribution and growth are intrinsically linked, and individual policy instruments that influence growth can also influence distribution. In other words, we cannot assume that there is no distributional bias to growth and therefore we cannot assume an implicit separability of policy instruments between growth and distribution. As he notes, this may lead to the danger of an easy slip in the classification of policy instruments into growth instruments (such as lower tariffs, higher FDI, privatizing SOEs) and distributive instruments (such as public work programs, food subsidies, and progressive taxation).

More recently, Braunstein and Seguin (2019) argue that when the labour share of income faces downward pressure, and there is slow wage growth, this constrains domestic aggregate demand and can impact the process of capital accumulation. Again, the point being made is that distribution and growth are intrinsically connected.

- II. Let me now turn to the issue of what these discussions of inclusive growth have to do with gender equality. And how gender has been typically addressed by IG frameworks.

If you recall, I started by saying that in most instances, in so far as income inequality is generally considered in IG discussions, the focus has been on household income inequality. But, if the unit of analysis is the household, then we have actually abstracted from gender (in the sense you are not looking at women’s wages/incomes relative to men’s). So, in such discussions, gender is not even a consideration.

In fact, it would be safe to say that for the most part, much of the literature on gender and IG has focused on what can be done to increase female labour force participation rates (Seth & Elson 2019). The argument is that if the constraints women face entering the labour market (ex: discriminatory laws and norms, unequal opportunities) are addressed, and if more women enter the labour market then this is a way of including them in the growth process. **But the inclusion of more women in the labour market doesn't mean that growth is inclusive.** In other words, the concern is not with issues of distribution and what this means for gender equality. The concern is simply with increasing women's LFPR.

More recently, feminist economists have begun grappling with this issue. And here I want to mention the seminal work that has been done by Stephanie Seguino and Elissa Braunstein. Their focus has been on examining gender equality and the functional distribution of income. Just to mention their argument briefly. What they did was to look at economies where growth has mainly been driven by exports. As we know, many of the countries that moved to an export-led growth model also saw a massive increase of women's participation in the labour market. As Braunstein puts it: "Globalization and trade liberalization underlie the nearly universal increase in women's share of the industrial labour force in high-growth or semi-industrialized economies in the past few decades. This is a result of the tremendous growth in manufacturing trade and export processing from developing countries."

It should be noted that increases in women's wage employment have also occurred among exporters of non-traditional agricultural goods, such as designer fruits and vegetables or cut flowers in sub-Saharan Africa and Central America. They can be found as well in countries engaged in aspects of the global services trade traditionally associated with women, such as lower paid data entry jobs and call centres.

With labour costs such a crucial part of international competitiveness, exporters in labour-intensive sectors prefer to hire women because their wages are typically lower than men's, and because they perceive women as more productive in these jobs. Foreign investors and firms looking for low-cost outsourcing platforms conform to the same pattern, at least on the lower rungs of the value added ladder.

Braunstein and Seguino go on to make the link between gender wage differentials, the increase in women's participation in the labour market, and the worsening of labour's share in GDP. Their empirical work (in Elson & Seth 2019) demonstrates that for the developing country group as a whole, where women's employment relative to men increased an average of 8.9 percentage points, the elasticity of the labour share was -0.30 per cent. The increase in women's relative employment could explain as much as 95.5 per cent of the decline in the labour share. The greater responsiveness and much larger magnitudes for Africa and Latin America and the Caribbean compared to Asia partly reflect the much larger increases in women's employment in the first two regions. As more women have moved into the labour market in contexts where productivity growth has been low and many women are concentrated in low-paying service sector jobs where they have little bargaining power, there is downward pressure on labour shares.

This dynamic illustrates how the relationship between women's employment and the labour share may be negative. If women's wages are systematically lower than men's, or, if women have less power than men to bargain with capital over wages, then as more women enter the labour force, labour's share of income will be depressed. There could also be more indirect bargaining power

types of effects that have to do with how stratification between women and men in the labour market manifests in terms of labour's bargaining power overall. As more women enter the labour market, to the extent that they are integrated on inferior terms, employers can use this to undermine terms and conditions for men. Simply expanding the labour supply, even or especially among more marginalized workers when jobs are scarce, can suppress wage demands.

In fact, this argument can also be extended to see if the concentration of workers in informal employment can be linked to the worsening of functional income distribution. Could it be that the concentration of workers in developing economies in informal employment has also contributed to the falling share of wages in GDP?

According to the ILO (2018), more than 60 percent of the world's employed population works in informal employment. Currently, 93 per cent of the world's informal employment is in emerging and developing countries. In Africa, 85.8 per cent of employment is informal. The proportion is 68.2 per cent in Asia and the Pacific, 68.6 per cent in the Arab States, 40.0 per cent in the Americas and 25.1 per cent in Europe and Central Asia.

Informality has also risen in the wake of protracted economic disasters such as the Asian crisis of the 1990s and the global financial crisis in 2008-09, in which business contraction and reductions in public sector employment provoked a rise in informal employment (Lund, 2009; Jutting and Laiglesia 2009; King and Sweetman 2010; Stavropoulou and Jones, 2013). Further, formally employed workers may also react to crises by taking on additional informal work to supplement their incomes (Amir and Berry, 2012).

Contrary to longstanding predictions that traditional informal sector would shrink as petty trade, small-scale production and casual jobs become absorbed into the modern, formal economy, informality has not only persisted but continued to emerge in new, unexpected areas (Chen, 2012; ILO and WIEGO, 2013). For example, the deregulation of labour markets which aimed to increase flexibility and competition, or reduce labour and production costs, has led to increased labour casualisation as formal enterprises outsource production to informal workers (Chen et al. 2006; Chant and Pedwell 2008).

Braunstein and Seguino also go on to show that when labour shares of income face downward pressure, and slow wage growth constrains domestic aggregate demand, it makes the economy more dependent on external demand to maintain and grow production. Without public policies to guide investment, these dynamics may discourage investments in human capital as they constrain incomes and the returns to education. Similarly, the extent of competition and insufficient demand (both external and internal) discourage investments in physical and technological capital in favour of the higher returns of financial activities. Thus, the consequent scarcity of better jobs is associated with women's increasing exclusion from decent (or better) work, even as their labour force participation increases.

III. Macro-level Economic Policies and Gender Equality

Given such instrumental linkages between gender inequality and growth, what kinds of policies could be pursued to accelerate both gender equality and a more inclusive growth process? In the end, achieving the objectives of gender equality and IG will fundamentally be shaped by policy.

I'd ideally like to focus on macro-level economic policies (specifically trade, fiscal, monetary and exchange-rate) but given time constraints today, I will pay specific attention to trade and macro-economic policies. Now, the starting point is to note that macroeconomic policies are not distributionally neutral with respect to gender. They have differential impacts on women and men. So even though macro policies may not explicitly have gender targets, it is important to trace their gender effects.

Trade Policy:

First off, as we noted earlier, inclusion has to be about more than simply including women in markets or encouraging their participation in global value chains. To the extent that women participate in industrialization and growth, they typically do so on inferior terms, with consequences not only for their well-being, but also for distribution and accumulation. Inclusion must refer to the creation of fundamentally decent work, with good wages, working conditions and labour rights, so that the benefits of growth are shared. These elements not only support greater gender equality, but they also sustain increased investments in labour and the growth of domestic aggregate demand, spurring and supporting further productivity growth.

When it comes to trade, let me highlight some key issues that matter for gender equality and inclusive growth, and then point to some policy options:

To begin with, we can identify at least four channels that link trade policy to gender equality and economic growth. First, trade usually leads to changes in the structure of production, with some sectors expanding due to export opportunities and others contracting due to import competition. Such changes are likely to affect employment, incomes, and the quality and security of jobs.

Second, trade induces changes in the price of goods and services, which in turn has an impact on real incomes.

Third, the reduction or elimination of tariffs due to trade liberalization diminishes government revenues and may curtail its ability to provide public services.

Fourth, economic and financial shocks (including trade shocks) have become a systemic feature of the global economy, and this is manifest in heightened growth volatility which has been experienced by developing economies (UNDP 2013). This in turn has resulted in larger consumption volatility. In countries where so many live at or near subsistence, sharp swings in consumption can have huge welfare costs. Moreover, high growth volatility is associated with lower long-term average growth rates.

As I noted earlier, all of these transmission channels have differential gender impacts: For instance, we know that export-led growth economies are also the ones that have seen a huge increase in FLFPRs – albeit at the lower end of value chains and by exploiting gender wage differentials. In these instances, policy attention should focus not just on employment but also on wage policy (and this links back to our discussion on the relation between gender equality and functional income distribution). As UNCTAD (2017) has pointed out, gender-related considerations should be included in the text of trade instruments such as trade agreements with an explicit focus on wage policy and

labour standards. Trade agreements between countries must ensure that all workers will receive decent wages and they must meet the standards of decent work conditions – including labour rights and social protection. Important tools that can help guide this are ex ante trade and employment impact assessments. Even as these have been used in the past, they have not necessarily included a gender focus.

Second, I would emphasize the importance of counter-cyclical policies which is of course related to fiscal capacity and fiscal space: we have already noted how reliant many developing economies have become on exports for generating growth. As of 2008, exports were more than one-third of GDP in Africa, Asia, the CIS, and Arab States. In fact, the most rapid growth took place in LDCs where exports as a share of GDP more than doubled between 1995 and 2008 (UNDP 2013).

Now, as is well-known, export dependency is a critical driver of macroeconomic vulnerability because greater dependency on exports to generate revenues and growth leads to greater exposure to global economic shocks (Briguglio). Moreover, the more vulnerable an economy is on primary commodity exports, the more vulnerable it is to international price shocks. Out of 141 developing economies, 95 depend on primary commodities for at least 50% of their export earnings – and for LDCs, as of 2009, the share of primary commodity exports in total exports reached 92%.

Price shocks make export earnings and growth extremely unstable. Erratic price movements generate erratic movements in export revenues, destabilize foreign exchange reserves, and are strongly associated with growth volatility. This then makes fiscal planning very difficult. Now, since the vast majority of poor households depend on the production of primary commodities for their livelihoods, such instability translates to income volatility for these households.

Put differently, the procyclicality of fiscal balances and volatility of sources of revenues and investment trap countries – which is why so many developing countries are unable to adopt counter-cyclical responses to macro-level shocks. This is why fiscal capacity² and fiscal space are critical – if a country has adequate fiscal capacity, it can maintain public spending or even adopt fiscal stimulus packages. Fiscal capacity in other words, reflects the capacity of a country to finance programmes that create employment, ensure the delivery of core services, infrastructure, and social protection. However, as we have seen, just when countries need access to finance, persistent trade and fiscal deficits prevent them from getting that access.

From a policy perspective, reducing macroeconomic vulnerability means recalibrating growth strategies to reduce extreme dependence on a narrow range of exports. And this implies generating domestic demand by increasing household incomes and consumption, along with boosting corporate investment. Clearly, consumption is likely to increase if a greater share of national income goes to poorer households, which also ensures a more inclusive pattern of growth.

Some of the policies that can bolster fiscal capacity include debt relief mechanisms, trade, finance, and fiscal policy reforms. Over the longer term however, the focus needs to be on increasing fiscal space which includes finding ways to mobilize additional domestic revenues.

² Fiscal capacity is defined as the ability of a country to finance larger fiscal deficits without jeopardizing macroeconomic stability and debt sustainability (World Bank 2009).

The reason I focus on this issue is also because of its importance from a gender equality perspective. I've already indicated that the massive increase of women in the labour market has been in export-oriented firms and industries. So, when you have a crisis, firms lay off workers in order to adjust to market conditions – and a good proportion of these workers are women. Further, due to weak counter-cyclical responses, what governments end up having to do is to cut public expenditure and adopt austerity policies. Indeed, there is an extensive literature that documents how expenditure cuts in subsidies, health and education budgets, wages and pensions have disproportionate adverse effects on women, children and poorer groups (Ortiz & Cummins 2013, Beneria et al 2016). Not to mention the increase that so many women face in terms of their unpaid care burdens.

Macroeconomic Policies

Fiscal Policy:

Tax policy

Two aspects of tax policy are relevant for addressing gender gaps in well-being – the distributional impact and the overall level of tax revenues. The distributional impact (specifically, the gender incidence) of taxation includes both direct taxes (for example, personal income and corporate taxes) and implicit taxes (such as value added, luxury and fuel taxes).

Although tax inequality may be direct (e.g., women and men explicitly taxed at different rates), the more frequent scenario is that gender bias is indirect and implicit, related to men's and women's different economic roles and norms. For example, insofar as women are the primary caretakers of families, taxes imposed on the consumption of basic goods will weigh more heavily on women. An example of gender-equalizing indirect taxation is in South Africa, where basic food items and paraffin are zero-rated (there are no taxes on these items) in contrast to high taxes on alcohol and tobacco.

Tax codes may also reflect a bias in the taxation of assets. Exemptions for mortgage interest payments, for instance, or dividend payments on stocks disproportionately benefit men. With regard to direct income taxes, the gender impact depends on the effect of joint or individual filing. Joint filing may lead to higher marginal tax rates on women's income, even though they earn less than men, thus discouraging their labour force participation. Examining tax codes with a gender equity lens, then, can provide the foundation for tax code reforms that are gender equalizing.

The level of taxes supports the ability of governments to reallocate pooled resources in ways to promote gender equality goals as outlined above. And here, we should note that some expenditures are actually investments. That is, some expenditures increase output and incomes (e.g., early childhood education, gender equality in education and employment that stimulates growth). Through taxation, the increased income yields a payback for many years into the future, such that these expenditures, at least partially if not fully, eventually pay for themselves.

A challenge then is to identify appropriate sources and levels of taxation as one of the means to generate the financial resources for gender-equalizing public investment.

Government Spending and Public Investment

Let me point to two types of public expenditures that can promote both the goals of employment creation and gender equality.

First, are the types of public expenditures that create employment (typically called Employer-of Last-Resort (ELR)) programmes. The ELR is a type of government-funded programme that employs all of the jobless who are ready, willing and able to work in a public-sector project at a base wage. These programmes seek to eliminate unemployment by hiring workers who apply, regardless of their work experience, skill background, race, age or gender. ELR programmes can be used to prevent deskilling and to strategically invest in infrastructure. During recessions, ELR employment would rise as the private sector sheds workers. During economic expansions, ELR employment rolls decline as workers seek employment in the higher-wage private sector. Some examples of ELR include Argentina's *Plan Jefes y Jefas de Hogares*, which was adopted in 2001 after the financial meltdown to deal with the subsequent economic fallout. Another example is India's National Rural Employment Guarantee Act which was adopted in 2005. The act establishes a legal job guarantee for 100 days of employment every year to adult members of any rural household willing to do public work (mainly unskilled) at the statutory minimum wage. The overall effect has been to improve the incomes of rural people by providing primarily semi-skilled or unskilled work opportunities, whether or not they are below the poverty line. In India, women's participation rate in the programme is double their participation rate in the casual labour market, and in 2009-2010, they comprised about 48 per cent of those employed by this job guarantee scheme.

Second, are public expenditures (investments) in physical and social infrastructure. Recently, there has been a lot of attention on how expenditures (investments) in social care infrastructure can create employment, and specifically be a way of creating decent employment for women (UNW 2018, ITUC 2017, Ilkaracchan, ILO). For instance, the ILO report on the care economy (2019) shows that investments in care sectors has the potential for creating approximately 475 million jobs by 2030 – of which 204 million will go to women.

Finally, it should be noted that government spending can also be usefully directed to targets that reduce inflationary pressures, especially in developing countries where the origins of the problem often lie with supply bottlenecks. Targeted spending to reduce bottlenecks – on physical infrastructure, roads and communications, and also on social infrastructure, such as for public health – can reduce production costs and therefore inflation. This is important for achieving the goal of full employment since, in many countries, central banks respond to inflationary pressures by raising policy interest rates, thereby reducing business investment and aggregate demand. The result is a slowdown in growth (Seguino 2019).

Monetary Policy:

Central banks can play an important role in promoting gender equality and inclusive growth through their ability to influence credit availability. This can stimulate job growth and increase access to productive assets for women entrepreneurs and farmers. Central bank tools to reduce destabilizing cross-border capital movements can limit macroeconomic volatility and help to avoid economic crises that undermine the goal of secure livelihoods.

Despite this potential, over the past two decades, central banks have narrowed the focus of their policy interventions to almost exclusively emphasize low inflation (what is known as inflation targeting). At the same time, and perhaps because of their more limited monetary policy goals, they have also restricted use of monetary policy tools that could help to achieve gender equality.

The effect of IT policies then is to reduce aggregate demand as the means to address inflationary pressures. This focus, however, has several deleterious effects.

First, IT misses the dominant sources of inflation in many countries, which are often related to supply-side pressures – for example, low productivity due to ill health and lack of education, HIV/AIDS and other public health crises, agricultural shocks, energy costs and poor infrastructure (Seguino).

Second, IT is deflationary – that is, it leads to slower GDP and employment growth, and dampens private investment (Epstein). Because it also slows growth, tax revenues fall, making it even more difficult to finance growth-stimulating public investments in physical and social infrastructure.

Third, IT contributes to growing inequality. As inflation falls and nominal interest rates increase, the real rate of return on financial investments rises. A redistribution to the wealthy dampens aggregate demand (due to the lower marginal propensity to consume of the wealthy), while also squeezing the incomes and thus consumption of lower income groups, reducing their ability to invest in productivity-enhancing expenditures such as health care and their children's education.

Finally, IT policies, by raising interest rates, attract capital inflows due to the higher rate of return on financial assets, leading to currency appreciation and downward pressure on exports, growth and jobs.

It is worth reiterating that monetary policy has not typically been seen as a means to promote gender equality or in fact the goal of full employment. Monetary policy, however, is not gender-neutral. Thus, monetary policy tools should be part of the toolkit of any government that desires to achieve gender equality.

Clearly then, this would require central banks to expand beyond an exclusive focus on inflation and to articulate additional targets in addition to a (higher) inflation target. One approach that is particularly useful for promoting gender equality is what might be called the “real” targeting approach to monetary policy. In this approach, targets should be linked to the real economy (rather than simply monetary targets). Central banks would adopt country-appropriate targets, such as for employment growth, gender equality in employment, improved incomes for women farmers, investment promotion and structural change, subject to an inflation constraint.

Such a shift in policy would require the central bank to design new tools and to rediscover old tools used by developed economies as well as in the East Asian economies. The *real* targeting approach might also be complemented by other policies, such as capital management techniques to deal with possible capital flight.

Alternative central bank tools

A tool central banks could use to meet multiple targets in addition to the short-term interest rate is asset-based reserve requirements (ARRs). ARRs would require private banks to hold a certain proportion of their loans in designated high-priority areas or else hold the same proportion of their total assets in non-interest bearing reserve accounts. This tool can be especially useful when fiscal policy is constrained by budget constraints. It would incentivize but not require banks to lend in priority areas, given that they would incur a cost of holding reserves in reserve accounts that do not

pay interest. This is a flexible method for directing credit to priority areas. Private banks would still be responsible for determining the creditworthiness of borrowers and thus retain a great deal of autonomy in lending practices.

The ability to qualify as creditworthy is a major roadblock for women borrowers, such as farmers, or for small- and medium-sized firms. Thus, even with the use of ARR, governments must adopt additional tools to expand access to credit for women entrepreneurs and farmers. One approach is for the central bank to offer guarantees on loans to targeted groups. Again, the private sector would provide the bulk of the credit, but it would be characterized by low interest rates leveraged with government loan guarantees. Government guarantees would reduce a bank's risk exposure, allowing it to lower the cost of lending to borrowers. These loan guarantees could substitute for collateral, leveraging access to credit and potentially bringing informal sector businesses into the formal sector. Credit could also be directed to large-scale businesses that can demonstrate their ability to promote significant increases in employment relative to their total spending.

Epstein (2015) described central bank policies adopted in recent years in developing countries that have expanded the focus beyond inflation to economic development and employment growth, both key to promoting gender equality. The Central Bank of Bangladesh, for example, developed policies to provide subsidized credit to small business, improve renewable energy use in agriculture and increase assets for small farmers. In 2012, Argentina's Parliament approved a new charter for the Central Bank that allows it to provide funds for domestic banks and other institutions involved in long-term financing of productive investments.

This discussion highlights that monetary policy's strength lies in its employment generation possibilities, as well as its ability to overcome asset inequality, whether in the form of land or other forms of wealth that serve as collateral. To be effective and well-targeted however, inclusive monetary policy must be coordinated with public investment goals. To the extent that public investment reduces inflationary pressures, central banks can afford to lower interest rates, in turn making it less costly for governments to finance public investment.

It is worth emphasizing more explicitly that what is proposed here is a partial role-reversal between fiscal and monetary policy. Greater weight should be given to the potential for fiscal policy to control inflation and for monetary policy to generate employment growth. Fiscal policy could address inflationary pressures by funding social and physical infrastructure (e.g., roads, research and development in agriculture and industry, irrigation, clean water and HIV/ AIDS programmes).

And the prioritization of investment projects should be gender-responsive. Lowering inflationary pressures through public investment leaves more space for expansionary monetary policy and targeted credit allocation that can stimulate employment generation. Key to both of these goals is a shift in focus away from IT by central banks and a stranglehold on sensible public-sector investment that can expand the productive capacity of an economy.

To sum up, macro-economic policy is neither gender- nor class- nor race-neutral in its effects. To advance the goal of gender equality, macroeconomic policy must be conducted through a gender equity lens, and with much more attention to its distributional effects.