

# Employment Strategy Papers

## Globalization, economic policy and employment: Poverty and gender implications

By

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## Foreword

This study - *Globalization, economic policy and employment: Poverty and gender implications* was initially commissioned in 2005 to take stock of recent literature and existing empirical evidence regarding economic growth, economic policies, employment and poverty through an engendered approach. Globalization is a process which affects all economies to varying degrees and has had both negative and positive influences on economic growth and employment, depending on the economic predisposition of a given economy, particularly in international trade, the set of macroeconomic policies adopted and how they are laid out in the overall development process and economic evolution. The study is, therefore, an attempt to analyse the overall impact of globalization and macroeconomic policies on employment and poverty trends with a specific gender perspective, or an attempt to engender employment and poverty implications of macroeconomic policies. The study also forms a part of the ILO's efforts to address the social dimension of globalization, in order to promote a fair and inclusive globalization through productive and decent employment for all.

The study demonstrates how the labour market and the world of work in general are clearly sex-disaggregated and how important it is to undertake analysis of the impact of macroeconomic policies on growth, employment and poverty reduction, with specific consideration of such segmentation. The study also demonstrates how different aspects of macroeconomic policies affect women's and men's work differently. The relevant implications should be taken into consideration for the formulation of economic and employment policies, adapting them to different economic disposition and evolution episode of various economies, as well as relative location of women and men in the world of work of that particular country.

The findings of this report suggest that the dominant economic policy regime will have to change if the problems of jobless growth are to be addressed. The current policy framework stresses a macroeconomic stability, freer markets, a smaller role for the public sector and uninhibited international flows of capital and goods, but not extending the same privilege to labour. Fortunately, alternatives exist for the responsible management of economies in a globally integrated context, alternatives that secure economic stability without sacrificing the welfare of working people or entrenching existing gender inequalities. The study has outlined, in broad terms, the elements of such a framework. The more difficult challenge is to marshal the political will to create the policy space necessary to move the global economy onto a development trajectory that supports sustainable poverty reduction, gender equity and decent work for all. We hope the paper will further stimulate the debate on relevant issues.

The author, James Heintz is Associate Research Professor at the Political Economy Research Institute (PERI), University of Massachusetts ([jheintz@peri.umass.edu](mailto:jheintz@peri.umass.edu)). The views expressed in this paper are the author's, as are the errors and omissions.

Naoko Otobe, Senior Employment and Gender Specialist in the Employment Sector of the ILO, who conceived the initial research idea, has provided overall technical coordination for commissioning the research and overseeing the publication.

Riswanul Islam  
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## Contents

	<i>Page no.</i>
Foreword .....	iii
Acknowledgements .....	vii
1. Introduction.....	1
2. Growth, employment and poverty reduction – a conceptual framework .....	3
2.1 The growth component .....	4
2.2 The employment component .....	7
2.3 The poverty component.....	10
2.4 Economic growth: implications on employment, poverty and gender.....	11
2.5 Globalization, economic policy and employment.....	13
3. Employment and labour force trends .....	15
3.1 Labour force participation.....	15
3.2 Employment and unemployment .....	16
3.3 Informal employment .....	21
3.4 Earnings and employment income .....	26
3.5 Employment and poverty.....	29
4. Feminization of labour and poverty .....	33
4.1 Feminization of labour .....	33
4.2 Feminization of poverty.....	34
5. Economic policy regimes and employment .....	39
5.1 Macroeconomic policies and employment.....	39
5.2 Monetary and central bank policy.....	43
5.3 Trade and employment .....	49
5.4 Exchange rate policy and capital flows .....	54
5.5 Fiscal and public sector policies.....	57
6. Policy alternatives for employment-centred development.....	61
6.1 Establishing an employment-friendly macroeconomic framework .....	62
6.2 Cultivating employment-centred growth .....	64
6.3 Making employment “pro-poor” .....	66
6.4 Summary .....	68
7. Conclusions .....	69
Appendix .....	71
References .....	73

## Tables

Table 1	Estimates of the Employment Elasticity of Growth.....	8
Table 2	Labour force participations rates, disaggregated by sex, 1980-2010 .....	16
Table 3	Selected statistics on employment and productivity in various regions and world.....	18
Table 4	Unemployment rates disaggregated by sex, 2003 .....	19
Table 5	Share of women's and men's informal employment by employment status category.....	25
Table 6	Working poor as a percentage of total employment, 1990 and 2004 .....	30
Table 7	Relative poverty rates: working poor poverty rates by sex and employment status category as a percent of the poverty rate for formal, private non-agricultural private wage workers.....	31
Table 8a	Poverty rates by household type, 1998/9, Ghana .....	35
Table 8b	Ratio of non-earners to earners (15+) by household type, 1998/9, Ghana.....	35
Table 9	List of employment and economic policy variables.....	40
Table 10	Impact of policy and economic variables on total employment, unbalanced dynamic panel estimates, 1970-2003, 16 low- and middle-income Countries.....	40
Table 11	Impact of policy and economic variables on women's and men's Employment, unbalanced dynamic panel estimates, 1970-2003, 16 low- and middle income countries.....	41
Table 12	Inflation-reduction episodes and deviations from long-run employment trends, disaggregated by sex.....	45
Table A1	Critical Values of Panel Unit Root Tests, Im, Pesaran and Shin technique (p-values in parentheses).....	72

## Figures

Figure 1	World GDP growth per capita and its long-run trend, 1961-2003.....	5
Figure 2	Long-run trends in average per capita GDP growth, select country groupings, 1961-2003.....	6
Figure 3	Ratio of women's employment to men's employment, selected countries, 1970-2003.....	19
Figure 4	Average rate of per capita GDP growth and annual changes in informalization .....	21
Figure 5	Estimates of informal non-agricultural employment as a percentage of total non-agricultural employment, 1994-2000.....	23

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# 1. Introduction

Sweeping changes have taken place in the world's economies in recent decades, changes which have reshaped the structure of employment on a global scale. National economies are now more integrated into the global system than at any other point in the recent past. The volume of international trade and the magnitude of cross-border capital flows have reached historically high levels. Advances in communications and transport technologies have led to the establishment of complex international production networks, with developing countries producing an unprecedented level of manufactured exports within global supply chains. Fundamental shifts in economic policies have accompanied the process of globalization. These policies have emphasized maintaining low rates of inflation, liberalizing markets, reducing the scope of the public sector and encouraging cross-border flows of goods, services and finance, but not labour.

It is commonplace these days to assert that globalization provides enormous challenges as well as opportunities. This observation is particularly relevant with regard to employment. The era of global integration has been associated with far-reaching changes in the structure of employment, including pressures for increased flexibility, episodes of "jobless growth," growing informalization and casualization, expanding opportunities for the highly skilled, but vanishing opportunities for the less skilled. New employment opportunities have been created in many developing countries due to the expansion of globally-oriented production, helping to reduce poverty and raise incomes. However, contradictions abound. Many of the new employment opportunities are precarious, and the size of the "working poor" population remains staggering.

The transformation of women's employment during this period has been similarly far-reaching. More women participate in paid employment than at any other time in history. The entry of women into the labour force has meant that, in many cases, the economic opportunities available to them have grown. However, equality of opportunity remains elusive. Sex segmentation of labour markets is endemic, with women concentrated in lower quality, irregular and informal employment. Economic stabilization programmes and the process of global integration have frequently squeezed household incomes, pushing women to enter the paid labour force. At the same time, economic reforms have intensified demands on women's unpaid work, creating a situation in which increasing the supply of women's labour is a central strategy by which families cope with fundamental economic change. At a basic level, women's employment, paid and unpaid, may be the single most important factor for keeping many households out of poverty.

Employment is the primary channel through which the majority of the population can share in the benefits of economic growth. In particular, employment plays a critical role in ensuring that economic growth translates into poverty reduction. However, the ability of employment to reduce poverty depends on prevailing gender relations and intra-household dynamics. Therefore, any analysis that seriously considers the connections between growth, employment and poverty reduction must incorporate a gender perspective or run the risk of reaching erroneous conclusions.

This study explores the growth-employment-poverty reduction nexus through a gender perspective. In particular, it explores how changes in economic policies affect

women's and men's employment and proposes ways of assessing the implications of these changes for poverty and gender equality.

The paper is structured as follows. The next section presents a conceptual framework for linking growth to employment and employment to poverty reduction within a gender perspective. The third section then reviews trends in labour force participation, women's and men's employment, informalization, earnings and poverty rates among the global working poor. The fourth part of the report extends the analysis by critically examining two frameworks used for understanding the gendered nature of work and poverty: the "feminization of labour" and the "feminization of poverty". The fifth section is in many ways the core of the report. It presents and reviews evidence concerning the impact of changes in economic policy on women's and men's employment. Four policy areas are explored: monetary policy, trade policy, exchange rate regimes and public sector restructuring. The sixth and final conclusion sections pull the analysis together and suggest ways of building an alternative policy framework of employment-centred development for poverty reduction.

## 2. Growth, employment and poverty reduction – a conceptual framework

When employment expands with economic production, the benefits of growth will be widely shared. Enhanced employment opportunities provide individuals with new, and often better, sources of income. In this way, improving the quality and quantity of employment opportunities directly links economic growth to poverty reduction. Low-income households possess few assets of their own. Instead, the most abundant resource the poor have at their disposal is their labour (Islam 2004, Squire 1993). A development strategy that more fully employs a country's human resources and raises the returns to labour becomes a powerful tool for reducing poverty.

Evidence from around the world suggests that the greater the employment focus, the more effective economic growth becomes in fighting poverty (Khan, 2001; Islam, 2004). The precise path to poverty reduction differs from country to country. However, most developing countries that have dramatically reduced their poverty levels have done so by improving employment opportunities. In these cases, low-income households have been able to participate in the improvements in the quality and quantity of paid work – for instance, by improving agricultural productivity or increasing jobs in labour-intensive production. Numerous examples exist – Indonesia, Vietnam, Chile, Bangladesh and South Korea (Osmani, 2004; Khan, 2001).

Economic growth alone can not be counted on to generate significant improvements in employment and poverty reduction (Osmani, 2004, 2003). The *type* of growth matters as much as the *level* of growth. Countries around the world have experienced periods of “jobless growth” in which output expands, but formal employment stagnates or declines. Informal employment frequently has grown more rapidly than formal employment, both during economic downturns and during periods of relatively rapid growth (Heintz and Pollin, 2003). Such “informalization” represents deterioration, on average, of the quality of remunerative work.

Employment is not the only means of translating growth into poverty reduction. Governments can utilize the additional resources that growth generates to provide basic services – such as education, health and income-support grants. Social provisioning policies supply public goods and services necessary for developing human potential. Therefore, as will be discussed later in the report, social policies must be an integral part of a viable employment-centred strategy for development. However, the principal focus here is on the growth-employment-poverty nexus.

The establishment of an employment-centred development path for poverty reduction requires the realization of three interrelated components:

- **A Growth Component** – sustaining adequate economic growth;
- **An Employment Component** - insuring that growth creates new employment opportunities and improves existing ones; and
- **A Poverty Component** - linking vulnerable or marginalized individuals and households to employment opportunities.

The connections between these three elements are not straight-forward. Economic growth alone is necessary, but not sufficient to achieve the ultimate objective of poverty reduction. Growth must be associated with improvements in employment opportunities if the efficiency with which growth reduces poverty is to be increased. Moreover, the generation of new employment is not enough to guarantee a decline in poverty. Policies must be designed so that the poor can take advantage of new opportunities.

In developing a conceptual framework for an employment strategy, it helps to examine each of these three components in more detail. Concrete suggestions for how these elements can be realised are contained in subsequent sections of the report.

## **2.1 The growth component**

Maintaining adequate rates of economic growth requires sustainable improvements in three areas: (1) expanding investment in productive capacity, (2) raising labour productivity (that is, the amount of output produced for a given quantity of labour), and (3) securing adequate demand. The expansion of productive capacity through new investments will generally raise labour demand, since increased production requires additional labour as well as capital. In addition, productivity improvements lay the groundwork for sustained improvements in living standards and wages. Higher productivity fuels growth by increasing the potential output from a given pool of resources.

However, higher rates of productivity may work against employment creation when less labour is needed to produce a given level of output. Similarly, new investments will not increase demand for labour if such investments simply add to excess capacity. To avoid these pitfalls, employment-intensive growth requires that demand for domestically-produced goods and services is matched with productivity improvements and investments in productive capacity. Therefore, access to markets – the ability to export to foreign markets and the expansion of domestic demand – is necessary to realise the benefits of greater productivity and investment. Achieving these objectives – greater productive capacity, productivity improvements and adequate demand – depends critically on the prevailing economic policy environment.

In recent decades, global economic performance has worsened in many regions of the world. Figure 1 presents average growth rates in world GDP per capita from 1961 to 2003. In addition, an estimate of the long-run trend in per capita GDP growth is presented.<sup>1</sup> In the 1960s and much of the 1970s, economic performance was volatile, much more so than in later periods. The long-run trend suggests a relatively steady decline in growth rates throughout this period. Beginning in the late 1970s, global growth stabilized, but at low levels relative to earlier periods.

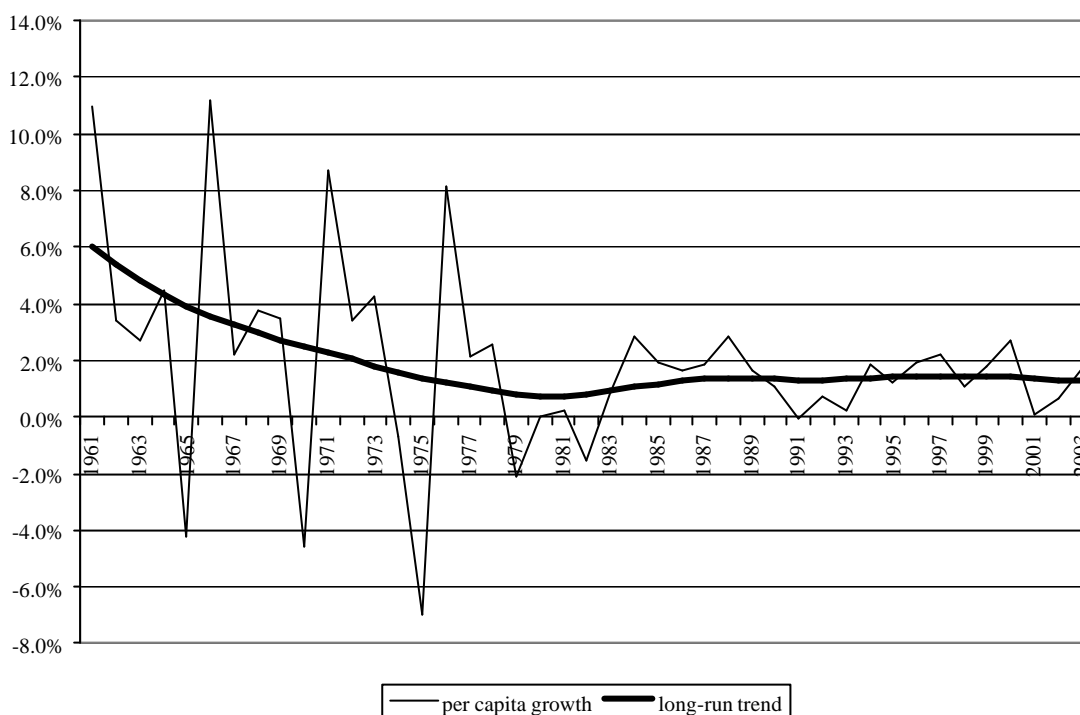
Similar trends in the long-run trajectory of economic growth are evident when growth is disaggregated and countries grouped by level of development. However, important differences also emerge. Figure 2 presents long-run trends in per capita GDP growth for (1) high-income countries, (2) low- and middle-income countries, excluding India and China, and (3) India and China. The World Bank's classification of countries into "high-income", "middle-income" and "low-income" groupings is used.<sup>2</sup>

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<sup>1</sup> In both Figure 1 and Figure 2, the long-run trends is generated by applying a Hodrick-Prescott filter to the annual time series for per capita GDP growth. The Hodrick-Prescott filter is a statistical smoothing technique that is widely used to obtain an estimate of the long-term trend component of a series.

<sup>2</sup> *World Development Indicators 2005* CD-ROM, Washington, DC: World Bank.

Figure 1.  
World GDP growth per capita and its long-run trend, 1961-2003



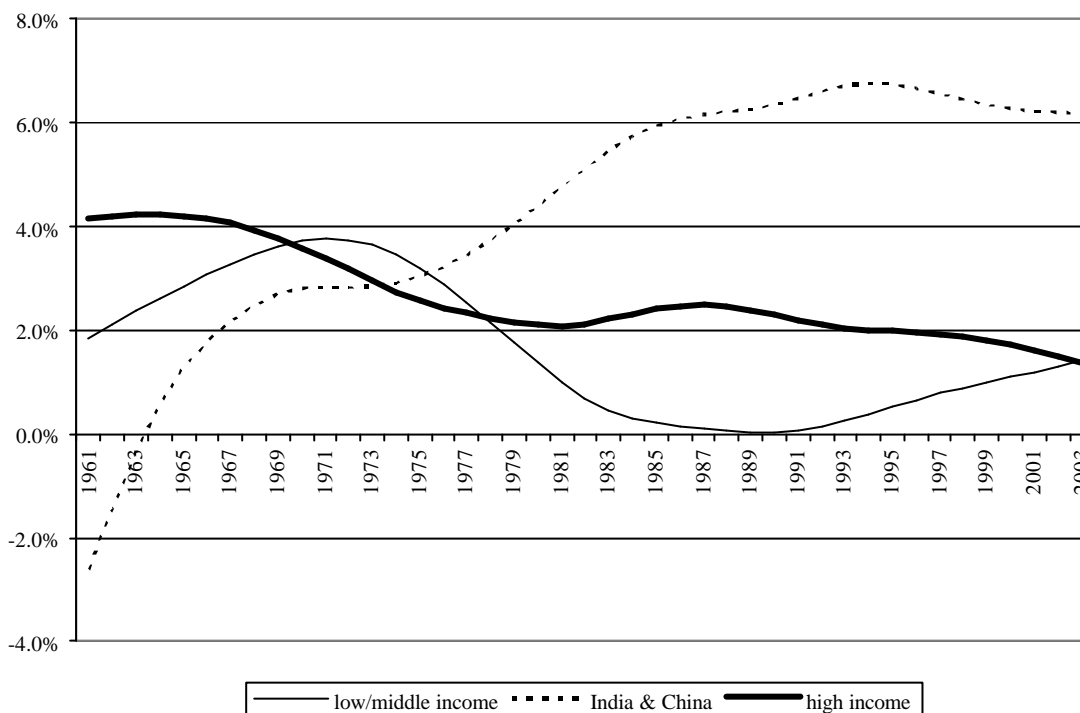
Source: World Development Indicators 2005 (Washington, DC: World Bank).

The long-run trend in the growth rate of the high-income countries generally reflects the world trend – that is, declining from relatively high levels in the early 1960s to stable and low levels after the late 1970s. The low- and middle-income countries – excluding India and China – show a somewhat different pattern. Growth accelerates during the 1960s until the mid-1970s, at which time the growth rate begins to decline steeply. The long-run trend in the growth rate bottoms out at nearly zero in the early 1990s, after which time a modest recovery occurs. The growth pattern of India and China is dramatically different. The long-run trend in the growth rate climbs from relatively low levels in the 1960s to high and steady rates in the late 1980s/early 1990s.

The change in global growth corresponds with shifts in economic policy. In many countries around the globe, policies emphasizing trade liberalization, deregulated markets, monetary policy focused on low and stable inflation rates and fiscal restraint began to be introduced in the mid- to late 1970s and were consolidated in the 1980s and 1990s. In many cases, such policies were directly connected to structural adjustment programmes introduced at the time of the debt crisis in many African and Latin American countries. However, this characterization of the shift in economic policies risks over-generalizing. Different countries pursued various policy paths and had a variety of growth experiences. Interestingly, India and China did not pursue this same set of policies and had markedly different growth experiences.

Separating out the effects of policy shifts, global integration and other factors which influence economic performance is difficult. Moreover, these influences cannot be assumed to be independent – e.g. policy choices affect the pace of global integration and the degree of integration determines the scope for purposeful government intervention. Therefore,

*Figure 2.*  
*Long-run trends in average per capita GDP growth, select country groupings,*  
*1961-2003*



Source: World Development Indicators 2005 (Washington, DC: World Bank).

the ways in which global integration, policy choices and economic growth interact continue to be debated. Specifically, dramatically different answers have been given in response to the question of whether global integration and associated policies have been good for growth (Dollar, 2005; Weisbrot *et al.*, 2001). Much depends on the selection of countries analyzed, the time period considered, and how the results are aggregated or summarized.

Later sections of this report will examine specific economic policies in more detail, but with an emphasis on their impact on employment, and women's employment in particular. At present, we should simply note that the slowdown in economic growth that many countries experienced in recent decades would have had a direct impact on the growth of employment opportunities. At the same time, it is important to recognize the diversity of development experiences. Exceptions do exist.

Finally, changes in inequality affect how growth impacts poverty. If inequality expands sufficiently, faster growth will have a muted impact on poverty and may be associated with high levels of poverty, measured across a variety of dimensions: income, consumption and human development (UN 2005; UNDP, 2005). In addition, it is important to acknowledge that, while growth is important for poverty reduction, poverty and inequality also affect economic performance (Deininger and Squire, 1998; Alesina and Rodrik, 1994; Easterly and Rebelo, 1993). The direction of causation runs in both directions.

## **2.2 The employment component**

Numerous factors influence the employment intensity of growth: the sectoral composition of output, the productive technologies utilized, downstream and upstream linkages to other activities in the domestic economy, and the size and trajectory of public employment. Sectoral interventions and productive sector strategies are needed to insure that growth is employment intensive. However, a purely sectoral approach artificially limits employment creation. Policies for the productive sector must be crafted to leverage downstream and upstream linkages in order to take advantage of larger employment multipliers. When these linkages to other value-adding activities are absent, the employment intensity of growth will be reduced.

Technologies must be appropriate to insure competitive market access and to absorb labour. In the short-run, there can be a trade-off between improving labour productivity and the growth of employment. However, such a trade-off is not a foregone conclusion and, in the long-run, labour productivity improvements are necessary for both more and better jobs (ILO, 2004c). Whether enhanced productivity leads to more opportunities depends in part on the economic environment in which the productivity improvements occur. When the broad economic policy environment is inappropriate – for example, when an overvalued exchange rate discourages the development of domestic linkages and limits market access – policy priorities should be adjusted appropriately if growth is to generate significant new employment opportunities.<sup>3</sup>

As mentioned previously, growth is not always associated with new employment opportunities. Research has suggested that the relationship between growth and employment generation has weakened in a large number of countries around the world in recent years (Kapsos, 2005). In other words, the additional employment created at a given level of economic growth appears to have fallen over time. Table 1 presents estimates of the “employment elasticity of growth” for the formal manufacturing sectors of 51 countries during two time periods: (1) the 1960s and 1970s, and (2) the 1980s onwards. The employment elasticity of growth describes the percentage change in employment associated with a 1 per cent change in value-added. For example, an employment elasticity of 0.5 indicates that a 10 per cent increase in the value of economic activity is associated with a 5 per cent increase in employment. In this way, the employment elasticity measures how responsive employment is to economic growth. A decline in the employment elasticity indicates that a given rate of growth is less employment intensive.

In two-thirds of the countries listed in Table 1, the estimated employment elasticity in manufacturing activities dropped in the later period, often significantly. This suggests that, for a given level of growth, the industrial sectors of many, but not all countries produced fewer jobs in recent years compared to the past. Some countries – e.g. Asian “tigers” like Korea and Singapore – experienced rapid growth rates that helped compensate for the decline in the employment intensity of that growth. However, a significantly large number of countries, both developed and developing, experienced both slower growth and a decline in the labour intensity of that growth in their industrial sectors.<sup>4</sup>

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<sup>3</sup> When fixed capital, such as computers, equipment, and machinery, are imported, an overvalued real exchange rate can also encourage overly capital-intensive investment by lowering the costs of these items. Through such mechanisms, macroeconomic policies impact the factor intensity of production.

<sup>4</sup> Kapsos (2005) finds a similar general decline in the employment intensity of growth in a study of 139 countries over the period 1991 to 2003. Kapsos disaggregates his estimates of employment elasticity by sex, age

*Table 1.*  
*Estimates of the Employment Elasticity of Growth.*  
*(the periods over which the elasticities were estimated are in parentheses)*

	<b>1960s/1970s</b>	<b>1980s +</b>
Algeria	0.97 (67-79)	0.40 (80-96)
Austria	0.32 (63-79)	-0.30 (80-99)
Bangladesh	0.56 (67-79)	1.00 (80-97)
Barbados	0.26 (70-79)	0.20 (80-97)
Bolivia	0.63 (70-79)	0.62 (80-97)
Cameroon	0.65 (70-79)	0.14 (80-98)
Canada	0.32 (65-79)	0.18 (80-01)
Chile	0.01 (63-79)	0.64 (80-00)
Colombia	0.72 (63-79)	0.39 (80-99)
Ecuador	0.81 (63-79)	0.26 (80-99)
Egypt	0.69 (64-79)	0.31 (80-96)
El Salvador	0.35 (63-79)	0.07 (80-98)
Finland	0.42 (63-79)	0.24 (80-00)
France	0.10 (63-79)	-1.13 (80-95)
Ghana	0.75 (63-79)	0.15 (80-95)
Greece	0.40 (63-79)	1.26 (80-98)
Hungary	0.17 (63-79)	1.00 (80-00)
Iceland	0.42 (68-79)	-0.57 (80-96)
India	0.66 (63-79)	0.18 (80-01)
Indonesia	0.58 (70-79)	0.63 (80-02)
Ireland	0.23 (63-79)	0.13 (80-99)
Israel	0.39 (63-79)	0.25 (80-01)
Italy	0.22 (63-79)	0.44 (80-94)
Jamaica	0.63 (63-79)	1.21 (80-96)
Japan	0.14 (65-79)	0.31 (80-01)
Kenya	0.71 (63-79)	0.63 (80-02)
Korea	0.73 (63-79)	0.14 (80-01)
Kuwait	-0.44 (67-79)	0.26 (80-01)
Malawi	0.45 (64-79)	-0.02 (80-98)
Malaysia	0.87 (68-79)	0.64 (80-01)
Malta	0.47 (63-79)	0.08 (80-01)
Netherlands	-0.44 (63-79)	-0.53 (80-00)
New Zealand	0.77 (63-79)	0.07 (80-96)
Norway	0.25 (63-79)	-0.26 (80-01)
Pakistan	0.34 (63-79)	0.35 (80-96)
Panama	0.74 (63-79)	-0.05 (80-00)
Philippines	0.96 (63-79)	0.38 (80-97)
Portugal	0.90 (63-79)	1.02 (80-00)
Singapore	0.78 (63-79)	0.24 (80-02)
South Africa	0.76 (63-79)	0.13 (80-99)
Spain	0.33 (63-79)	0.79 (80-00)
Sri Lanka	0.80 (66-79)	0.83 (80-00)

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(i.e. youth), and region. It is important to note that not all countries or regions experienced the same pattern of decline in their employment elasticity over this period.



*Table 1.*  
*Estimates of the Employment Elasticity of Growth (continued)*

Sweden	0.06 (63-79)	0.46 (80-00)
Syria	0.45 (63-79)	-0.28 (80-98)
Trinidad Tobago	0.26 (66-79)	0.21 (80-95)
Turkey	0.93 (68-79)	0.26 (80-97)
UK	-0.26 (63-79)	0.13 (80-95)
USA	0.17 (63-79)	-0.25 (80-95)
Uruguay	0.70 (68-79)	0.93 (80-97)
Venezuela	0.85 (63-79)	0.23 (80-98)
Zimbabwe	0.65 (63-79)	0.06 (80-96)

*Source: Author's calculations based on UNIDO data (INDSTAT3 2005 Rev.2 database). Simple bivariate regressions were used to generate the estimates. The regressions took the form:  $\ln Y_{it} = a_i + \beta_i \ln E_{it}$  in which  $Y_{it}$  represents manufacturing value-added for country 'i' in year 't' and  $E_{it}$  represents total manufacturing employment for country 'i' in year 't'. The coefficient,  $\beta_i$ , over the two time periods for each country is used as the estimate of the employment elasticity.*

Declining employment elasticity of growth suggests that productivity trends are increasingly influential in determining labour demand. As mentioned previously, growth of labour productivity is necessary, although not sufficient, for improving employment earnings and living standards (ILO, 2004a). These two dimensions of labour productivity present us with a dilemma: productivity improvements are necessary to improve the quality of employment, but may undermine efforts to increase the quantity of labour demanded. For developing countries with widespread underemployment in low-productivity activities, addressing this tension is of paramount importance.

If the objective is to improve employment opportunities in terms of both quality and quantity, then the policy framework must address the need to expand employment without compromising productivity improvements. This requires ensuring that the output of goods and services expands at least as rapidly as productivity. In other words, productivity improvements should be pursued in combination with strategies to relax demand constraints (e.g. inadequate market access), capital constraints (e.g. insufficient investment), or both types of constraints simultaneously.

Responses to the decline in the employment intensity of growth have been varied: for example, expansion of low-paid service employment, high and sustained levels of open unemployment, or an increase in the average number of household members working in low-productivity agricultural activities. Furthermore, although data limitations prevent us from making definitive statements, informalization appears to have increased in countries around the world during this period (Heintz and Pollin, 2003; ILO, 2002a; Benería, 2001; Castells and Portes, 1989).

The growth of informalization raises a concern over the quality, not just the quantity, of jobs created during this period. In many economies, the average quality of employment opportunities and associated social protections was eroded, a result of increased flexibility in labour markets (Standing, 1999a). Subsequent sections of this report will examine how specific policies impact these patterns of employment – not just in terms of economic growth, but also with regard to the quantity and quality of employment opportunities generated at a given rate of growth.

### **2.3 The poverty component**

Clearly, if poverty is to be reduced, then the poor must be able to benefit from employment creation. Policies should be designed to allow individuals' better access to a more diverse array of economic opportunities. Improving the effectiveness with which employment creation reduces poverty can be framed within the context of labour mobility, if mobility is conceptualized broadly enough. Three dimensions of labour mobility are particularly relevant: mobility within the labour market (i.e. across labour market segments); spatial mobility (i.e. domestic and international migration); and mobility within a given employment activity (upward and downward mobility in earnings and working conditions).

In general, policies that increase the positive aspects of mobility across these three dimensions will enhance the effectiveness of an employment-focused strategy in reducing poverty and raising living standards. Moreover, improvements in labour mobility are good for growth. A study of Latin American economies estimated that the benefits of eliminating sex-based segmentation in the labour market range from 2 to 9 per cent of GDP (Tzannatos, 1999). The potential benefits to developing countries of liberalizing international labour flows may greatly exceed the benefits these countries would realize through further liberalization of trade or capital flows (Rodrik, 2002).

Numerous policies can be implemented to increase mobility across these three dimensions. For example, reducing labour market segmentation may require improving skills and training and enhancing access to credit and capital assets of various kinds (Rakodi, 1999). As will be discussed at length later in this report, addressing gender inequalities in the division of market and non-market work is critical to reduce labour market segmentation and enhance mobility.

Improvements in the terms of trade for the working poor are necessary in order to enhance upward mobility within an employment activity and to discourage immiseration of employment - that is, employment that traps workers in a cycle of low-productivity and poverty. For example, prices that agricultural producers receive for their produce, are often much lower than consumer prices in the final market. Much of the value is captured by others along the distribution network that links the product to the market. Similarly, crowding in the urban informal marketplace intensifies competition and reduces the already low incomes that informal workers earn. In these cases, if poor workers could capture a larger share of the value of what they produce or sell - including their own labour - the poverty-reduction potential of employment would be enhanced.

The combination of slower growth and the falling employment intensity of growth described above have important implications for poverty outcomes. In the absence of new policies to assist low-income families, we would expect increasing poverty in those countries that experienced slower growth and poor performance with regard to employment creation.

The question of whether inequality and poverty have intensified over time has been the subject of much research and debate (Milanovic, 2005; Chen and Ravallion, 2004; Ghose, 2003; Sutcliffe, 2003; Deaton and Dreze, 2002; Sala-i-Martin, 2002). However, the answer to the question - have global poverty and inequality increased? - depends on the different experiences of countries around the world and how these divergent experiences are combined into a single assessment (Sutcliffe, 2003). Some populous countries, such as China, have shown a decline in poverty in recent years, and this is sufficient to influence global trends (Chen and Ravallion, 2004; Ghose, 2003). In other countries and regions, inequality and

poverty appear to have increased with globalization (*ibid.*). Moreover, the extent to which low-income countries have caught up to high income countries, in terms of reducing the gap in per capita income, has varied from country to country and region to region (Ghose, 2003). Both inter-country and intra-country trends need to be taken into account when assessing overall trends. We examine the employment-poverty linkages in more detail later in the report.

#### **2.4 Economic growth: implications on employment, poverty and gender**

The framework presented above – with growth, employment and poverty-reducing elements – is inadequate. Women and men occupy different positions in local, regional and global economies with important implications for the realization of the triple objectives of growth, employment and poverty reduction. Therefore, the gendered nature of economic institutions, the unequal distribution of assets and opportunities between men and women, and the division of labour between paid and unpaid work must be incorporated into the framework. Specifically, a gender perspective must be incorporated into the three components detailed above. A failure to do so would compromise the usefulness of the overall framework.

The growth-employment-poverty nexus, as outlined above, focuses exclusively on market-based transactions relating to employment and the income generated through these transactions. These market exchanges take on many forms. For instance, in wage labour markets, individuals exchange their labour directly for a salary or wage. The terms of this exchange has a direct impact on the living standards and poverty status of households.

However, this focus on the market relationships that govern remunerative employment ignores non-market activities that have an enormous effect on poverty status, development outcomes and the production of human potential. Much of this non-market work takes place in households, families and communities. In addition, intra-household dynamics directly influence the distribution of labour and resources in ways that impact access to employment opportunities in the short- and long-run.

Gender relations determine the ways in which market and non-market work is organized. Women often have primary responsibility for non-market (unpaid) housework and caring labour. This constrains their choices in terms of labour force participation and their access to paid employment, both formal and informal (Benería, 2003). The allocation of time to non-market as opposed to market work limits the household income that women control directly. Furthermore, with more time allocated to non-market work, women frequently have less paid work experience or interrupt their employment, factors which often translate into lower earnings.

As we will see in much more detail, sex segmentation is endemic in labour markets around the world, with women often concentrated in low-paid, unstable and poor-quality employment. Wage labour markets might not be the only, and often not the most important, form of market exchange relating to these forms of employment. For instance, quasi labour markets exist in which workers sell a product or service, but within a set of dependent relationships that limit their authority over the employment arrangement. Examples include subcontracted production, or home work, in which workers produce or assemble goods for a set of specification given by the work provider (often a middle man – quasi employer, or a factory) within a longer supply chain. Distinct market dynamics, apart from those of labour markets, govern various forms of self-employment or quasi wage employment. Often social benefits and protection are absent for these types of precarious and informal employment,

raising the economic risk that women working in these activities face, as they are undertaken outside the ambit of labour legislation.

This type of labour force segmentation reduces women's earning potential. With lower expected earnings, investment in girls' and women's education frequently lags behind that of male population. Similarly, perceived women's lower earning potential reinforces the gender division of labour within the household, since the opportunity cost, in terms of foregone income, of specializing in unpaid care work is lower for women than for men. Women who specialize in providing unpaid care work face enormous economic risks (Folbre, 1994). Such specialization not only lowers their earnings potential and reinforces dependencies on a male "breadwinner". Often women do not have the same access to social protections, such as pensions for old age, thereby increasing their risk of falling into poverty.

The gender division between market and non-market work, the unequal distribution of employment opportunities, and women's lower earnings potential reinforce established gender dynamics at household level. For example, women's influence over the distribution of resources and labour within the household is weakened when opportunities to earn income through employment are limited. Therefore, increasing women's access to paid employment has the potential to change gender roles and household dynamics, depending on the resilience of gender norms in society and the type of employment to which women have access (Benería and Floro, 2005; Benería, 2003; Kabeer, 2000). The relationship between paid market work and prevailing gender relations is complex. Access to remunerative employment does not always translate into control over a portion of the household's income. Similarly, labour market participation may involve costs as well as benefits (Elson 1999). These factors influence the extent to which women's access to employment alters gender dynamics.

Women's labour force participation is not only determined by prevailing gender norms. Women respond to adverse economic conditions – including rising unemployment – by increasing their rate of labour force participation. For instance, studies have shown that increases in women's labour force participation have corresponded to the implementation of structural adjustment programmes (Çagatay and Özler, 1995; Benería and Feldman, 1992). Women's labour force participation has been shown to increase with economic crises and policies that trigger labour displacement, job instability and higher rates of unemployment (Cerrutti, 2000; Arriagada, 1994). Women also increase their labour force participation in response to sustained structural unemployment. For instance, research into the determinants of women's labour supply in post-apartheid South Africa has shown that women's labour force participation responded to increases in household joblessness, thereby placing further upward pressure on the country's average unemployment rate (Casale, 2003).

The responsiveness of female labour force participation to worsening economic conditions highlights the impact of established gender norms on men. Not all men occupy identical positions within the global economy. Many men are employed in precarious activities with low earnings. In addition, racial and ethnic identity frequently circumscribes the economic opportunities available to both men and women. Growing earnings inequality, an erosion of the quality of paid work, or greater joblessness disproportionately affects those in more unstable forms of employment. The entire household – men, women and children – becomes susceptible to poverty. As noted above, increased risk of poverty can affect the survival strategies of the household in terms of women's participation in paid employment.<sup>5</sup>

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<sup>5</sup> Not all coping strategies involve employment. See Benería and Feldman (1992) for in-depth analysis.

However, it can also affect men who have been socialized to think of themselves as “breadwinners.” In particular, established gender roles may cause men to see the deterioration in employment as a personal failing, instead of a systemic economic problem (Nurse, 2004).

The coping strategies adopted at the household level in response to negative economic shocks underscore the importance of taking these dynamics into account when considering the linkages between growth, employment and poverty. For countries with well-developed social welfare systems, government policies mitigate these negative consequences. However, for countries without publicly supported systems of social protection, households and communities become a safety net of last resort (Benería and Floro, 2005).

An additional link exists between paid employment, non-market work and human development. The ability to translate access to paid employment into new capabilities, greater freedom and improved investments in children depends on the nature of relationships within the household and the process by which decisions are made concerning the allocation of labour time and economic resources (Folbre, 1994; Sen, 1992). Indeed, increased gender inequalities, even in the short-run, can have long-term consequences for economic growth and human development (Seguino, 2005; Ranis, Stewart and Ramirez, 2000). Therefore, it is critical to incorporate the gender dimension into the growth-employment-poverty nexus. Otherwise, the picture will not be fully understood and the implementation of an effective development strategy will be compromised.

## ***2.5 Globalization, economic policy and employment***

Fundamental and far-reaching changes have taken place in the world economy over the past several decades that have had a profound impact on the global employment situation. The lives of women and men have been transformed, in different ways, during this period. Two fundamental aspects of the transformation are (1) the heightened and growing degree of global economic, social and cultural integration (i.e. the process of “globalization”) as reflected in such phenomena as the expansion of international trade<sup>6</sup> and (2) a shift in policy stance towards deregulated markets, privatization, a smaller role for the state and a relatively narrow focus on reducing inflation. These two trends are mutually reinforcing. For example, policies of liberalization and macroeconomic stabilization are often justified as necessary adjustments to the process of global integration. At the same time, deregulation and privatization frequently facilitates the integration of markets across national borders.

The remainder of this report will focus on how these changes impact employment and poverty for women and men. Specific policies will be examined in much greater detail, including monetary policy, trade policy, exchange rate regimes and fiscal policy. Gender dynamics are central to this entire discussion. Whether households stay out of poverty in this changing global environment may hinge on whether women participate in the labour force and have access to decent paid employment. As pointed out earlier, women’s labour force participation has been increasing almost everywhere around the world, a process described as “the feminization of labour”. However, these global changes have a fundamental impact on the allocation of labour time and economic resources in the household. Moreover, employment opportunities are unequally distributed, with women concentrated in lower-quality, more precarious forms of paid work. Taken together, all these factors have enormous implications for the vulnerability of households, the risk of poverty and achieving sustainable

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<sup>6</sup> The focus of this study is on economic globalization. Social and cultural aspects of globalization are frequently more difficult to quantify than the economic dimensions, and are frequently, and erroneously, deemed less significant.

human development. Therefore, the analysis in this report will incorporate a gender perspective when interpreting how global policy changes impact employment and poverty.

### 3. Employment and labour force trends

#### 3.1 Labour force participation

Over the past several decades, one of the most significant transformations of the employment situation in a large number of countries has been the dramatic increase in women's labour force participation. The growth of women's labour force participation rates relative to men's is a widely recognized trend in both developed and developing countries (ILO, 2004b; Blau, Ferber and Winkler, 2002; Tzannatos, 1999; Horton, 1999; Çagatay and Özler, 1995; Goldin 1994). The impact of this shift on total labour force participation – including men and women – is ambiguous. This is because, in many parts of the world, men's labour force participation rates have been falling, while women's rates have been increasing.

Table 2 presents estimates and projections of labour force participation by broad geographical regions from 1980 to 2010.<sup>7</sup> The data are taken from the Economically Active Population Estimates and Projections (EAPEA Version 5) of the ILO. According to these estimates, men's labour force participation rates have been declining on average in all regions. The extent to which women's labour force participation rates have increased varies significantly. Over the past 20 years, women's labour force participation rates have sustained their historical trend and increased significantly in the Americas and Western Europe. Sub-Saharan Africa, Southeast Asia and East Asia have exhibited more moderate increases in women's labour force participation over this same period.<sup>8</sup>

According to these estimates, women's labour force participation rates have fallen in some regions. Following the collapse of the Soviet Union, the labour force participation of both women and men in Eastern Europe appears to have dropped significantly; prior to the change, the labour force participation rates of women in Eastern Europe were among the highest in the world. In addition, women's labour force participation rates appear to have been declining in South Asia.<sup>9</sup>

If we define the "feminization of labour" to represent a situation in which the ratio of women's labour force participation rate to men's labour force participation increases over time, then all of the regions presented in Table 2, with the single exception of South Asia, could be said to have experienced a feminization of labour since the 1980s.<sup>10</sup>

Numerous factors explain the increase in women's labour force participation: improvements in female education, declining fertility, growing urbanization, shifts in the sectoral composition of production and changing gender norms. As noted earlier, economic performance can also affect women's labour force participation. When household resources are squeezed, women often increase the amount they work in income-generating activities. The fall in real per capita incomes in many sub-Saharan African countries during the 1980s

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<sup>7</sup> Figures for 1980, 1990, and 2000 are estimates of actual labour force participation rates. The figures for 2010 represent projections of future participation rates.

<sup>8</sup> In some countries and regions, there is evidence of an earlier increase in women's labour force participation, prior to the 1980s. However, changes in the ways in which historic estimates of labour force participation rates are generated makes comparisons between earlier data and the more recent ILO estimates problematic.

<sup>9</sup> There is some concern that women's labour force participation may not be accurately measured in South Asia. If true, undercounting makes cross-regional comparisons unreliable.

<sup>10</sup> This usage of "feminization of labour" differs somewhat from how the term is used in other contexts. See Standing (1989) and Vosko (2002).

Table 2.  
Labour force participations rates, disaggregated by sex, 1980-2010 (in percentage)

<u>Region</u>		1980	1990	2000	2010 (Projecti on)
<b>Latin American and the Caribbean</b>	<b>TOTAL</b>	57.5%	61.3%	62.2%	65.9%
	<b>M</b>	82.1%	82.4%	80.3%	78.1%
	<b>F</b>	33.4%	41.0%	44.9%	54.3%
<b>North America</b>	<b>TOTAL</b>	63.8%	66.2%	66.6%	65.7%
	<b>M</b>	77.4%	75.9%	74.2%	71.8%
	<b>F</b>	51.0%	57.1%	59.4%	59.9%
<b>Europe</b>	<b>TOTAL</b>	61.6%	60.6%	57.4%	57.4%
	<b>M</b>	74.7%	71.7%	66.5%	64.7%
	<b>F</b>	50.0%	50.7%	49.3%	50.9%
<b>- Eastern Europe</b>	<b>TOTAL</b>	68.3%	65.7%	58.3%	57.9%
	<b>M</b>	77.1%	74.1%	65.9%	65.1%
	<b>F</b>	60.9%	58.4%	51.8%	51.8%
<b>- Western Europe</b>	<b>TOTAL</b>	56.6%	57.0%	56.8%	57.1%
	<b>M</b>	73.0%	70.0%	66.8%	64.4%
	<b>F</b>	41.6%	44.9%	47.5%	50.2%
<b>Africa</b>	<b>TOTAL</b>	69.3%	70.1%	69.0%	68.8%
	<b>M</b>	84.5%	84.9%	84.1%	83.5%
	<b>F</b>	54.5%	55.7%	54.2%	54.2%
<b>- sub-Saharan Africa</b>	<b>TOTAL</b>	78.8%	79.5%	79.6%	80.8%
	<b>M</b>	86.0%	85.6%	86.5%	85.8%
	<b>F</b>	71.7%	73.5%	73.0%	76.0%
<b>Asia</b>	<b>TOTAL</b>	71.2%	70.1%	67.9%	66.4%
	<b>M</b>	85.4%	83.7%	82.5%	80.8%
	<b>F</b>	56.4%	55.9%	52.9%	51.6%
<b>- East Asia (excluding China)</b>	<b>TOTAL</b>	62.8%	63.2%	62.3%	59.6%
	<b>M</b>	79.0%	77.1%	75.9%	71.4%
	<b>F</b>	47.2%	49.7%	49.2%	48.4%
<b>- South East Asia</b>	<b>TOTAL</b>	70.8%	70.8%	70.1%	71.1%
	<b>M</b>	83.6%	83.1%	82.9%	82.7%
	<b>F</b>	56.5%	58.8%	57.6%	59.8%
<b>- South Asia</b>	<b>TOTAL</b>	65.8%	62.8%	60.1%	59.8%
	<b>M</b>	85.7%	84.4%	82.6%	81.2%
	<b>F</b>	44.7%	40.0%	36.6%	37.6%
<b>WORLD</b>	<b>TOTAL</b>	67.9%	67.7%	66.2%	65.5%
	<b>M</b>	83.0%	81.7%	80.3%	78.9%
	<b>F</b>	52.9%	53.7%	52.2%	52.1%

Source: EAPEA Version 5, ILO.

and 90s may partially explain why women's labour force participation rates in the region remain among the highest in the world.

### 3.2 Employment and unemployment

Various indicators are commonly used to assess trends in employment opportunities. Each measurement has its own limitations. The unemployment rate is perhaps the most common metric used, particularly in developed economies. However, the unemployment rate is sensitive to variations in the definition of who is employed, who is unemployed and who is in or out of the labour force. For example, the unemployment rate will fall when the number of discouraged workers increases. Discouraged workers – a category, under which women often fall, are individuals who have stopped looking for employment due to a sustained lack of opportunities. For this reason, many analysts prefer to use the ratio of employment to the



total population as an indicator of trends in employment opportunities. It is important to note that neither measure adequately captures the extent of *underemployment* among the employed, arguably the most significant employment issue in developing countries with a large share of informal employment.<sup>11</sup>

Over the past decade, the growth in employment has not kept pace with the growth in populations or the expansion of the labour force in most regions around the world. Table 3 illustrates these broad trends from 1993 to 2003. The global employment/population ratio fell from 63.3 per cent to 62.5 per cent over this period, indicating that employment growth fell short of population growth. Different groups of countries exhibit distinct trends. For example, the employment/population ratio grew in sub-Saharan Africa, the Middle East and North Africa and in the world's high income countries. However, the ratio either remained constant or declined in all other country groupings.

With declining employment to population ratios, it is not surprising that official unemployment rates increased in most regions. Only in the high-income countries did unemployment rates fall appreciably from 1993 to 2003. The ILO estimates that, in 2003, approximately 186 million people were jobless, the highest level recorded (ILO 2004a). Of the 186 million unemployed, 108 million (58%) were male and 78 million (42%) were female.

If employment increases at the same rate as GDP, the unemployment rate should not increase as long as the economic growth rate is equal to or greater than the combined growth rates of productivity and the labour force. In Table 3, this rule of thumb holds for all the country groups with the exception of the transition economies. From 1993 to 2003, the transition economies experienced the largest drop in the employment/population ratio and the biggest percentage point increase in the unemployment rate. Since unemployment rates increased in other country groupings, in which economic growth exceeded the combined growth rates of the labour force and productivity, this indicates that employment growth lags behind economic growth. This pattern is consistent with a decline in the employment intensity of growth, discussed earlier.

Women's employment has been growing as a share of total employment. This trend parallels the pattern observed with respect to women's labour force participation. Figure 3 graphs women's employment as a per cent of men's employment for five selected countries from 1970 to 2002.<sup>12</sup> Data collection and survey methodologies differ among these countries. Therefore, we should avoid direct comparisons of the percentages across countries and instead focus on common trends. To varying degrees, women's employment has been increasing faster than men's. This trend is broad-based and is not limited to those countries shown in Figure 3. Other studies also show that the gap between women's share of employment and men's share of employment have been narrowing (e.g. OECD, 2002).

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<sup>11</sup> Employed individuals who face inadequate demand for their labour, either directly or indirectly, are considered "underemployed." For example, employed workers who would like to work more hours per week would be underemployed.

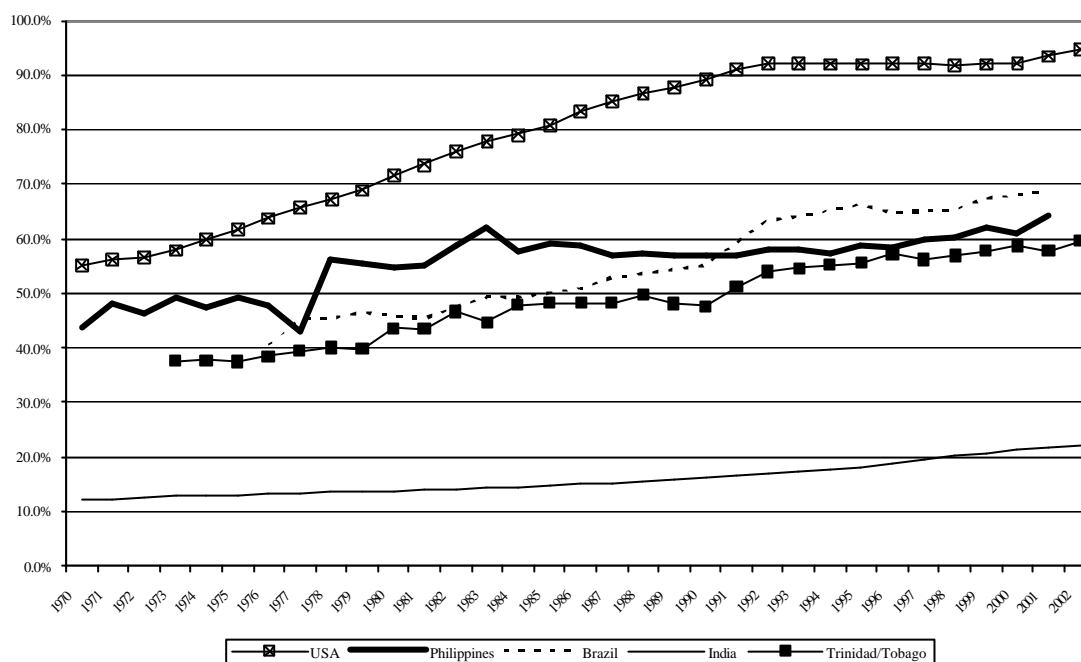
<sup>12</sup> These countries are illustrative of wider trends. More countries were not included in the graph to avoid clutter and improve readability.

*Table 3.*  
*Selected statistics on employment and productivity in various regions and world*

Geographical region Type of economies	Employment- Population Ratio		Change in Employment- population Ratio	Annual labour force growth	Annual production growth	Annual GDP growth	Change in unemployment rate
	1993	2003	1993-2003	1993-2003	1993-2003	1993-2003	1993-2003
<i>Latin America and the Caribbean</i>	59.3%	59.3%	0.0%	1.8%	1.0%	3.5%	+1.1
<i>Sub-Saharan Africa</i>	65.6%	66.0%	0.4%	2.8%	-0.2%	2.9%	-0.1
<i>Middle East and North Africa</i>	45.4%	46.4%	1.0%	3.3%	0.1%	3.5%	+0.1
<i>East Asia</i>	78.1%	76.6%	-1.5%	1.3%	5.8%	8.3%	+0.9
<i>Southeast Asia</i>	68.0%	67.1%	-0.9%	2.4%	2.0%	4.4%	+2.4
<i>South Asia</i>	57.0%	57.0%	0.0%	2.3%	3.3%	5.5%	+0.0
<i>Transition Economies</i>	58.8%	53.5%	-5.3%	-0.1%	2.3%	0.2%	+3.1
<i>High-income economies</i>	55.4%	56.1%	0.7%	0.8%	1.4%	2.5%	-1.2
<b>WORLD</b>	<b>63.3%</b>	<b>62.5%</b>	<b>-0.8%</b>	<b>1.8%</b>	<b>1.0%</b>	<b>3.5%</b>	<b>+0.6</b>

Source: ILO (2004c), p. 27.

Figure 3.  
Ratio of women's employment to men's employment, selected countries, 1970-2003



Source: ILO LABORSTA database ([laborsta.ilo.org](http://laborsta.ilo.org)).

Women's unemployment rates are generally higher than men's (Table 4). However, women's unemployment rates have been remarkably stable in many regions of the world over the past decade, two exceptions being South Asia and the transition economies (ILO, 2004b).<sup>13</sup> This suggests that, in those parts of the world in which women's unemployment rates have held steady, women's employment has increased proportionately to the growth in

Table 4.  
Unemployment rates disaggregated by sex, 2003

	Female	Male	Total
Latin America and the Caribbean	10.1	6.7	8.0
Sub-Saharan Africa	9.6	11.8	10.9
Middle East and North Africa	16.5	10.6	12.2
East Asia	2.7	3.7	3.3
Southeast Asia	6.9	5.9	6.3
South Asia	6.2	4.3	4.2
Transition Economies	9.2	9.2	9.2
High-income economies	7.0	6.7	6.8
<b>WORLD</b>	6.4	6.1	6.2

Source: ILO (2004b).

<sup>13</sup> South Asia and the transition economies also experienced a decline in the rate of women's labour force participation since the 1980s (ILO, 2004b).

women's labour force participation. On a global scale, women's unemployment rate has grown from an estimated 5.8 per cent in 1993 to 6.4 per cent in 2003, but this is approximately comparable to the increase in men's unemployment rate over the same time period – from 5.5 per cent to 6.1 per cent (ILO, 2004b).<sup>14</sup>

Although women's employment appears to be increasing more or less proportionately to the growth in women's labour force participation in many parts of the world, unemployment rates say nothing about the *types* of employment women are engaged in. At the global level, women's employment has grown in all productive sectors – agriculture, manufacturing and services – with a particularly strong increase in the service sector (Mehra and Gammage, 1999).<sup>15</sup> Women have also made some inroads in occupations that have been traditionally dominated by men. These trends are not restricted to high-income countries. Some evidence exists for occupational mobility in middle-income countries as well (Horton, 1999). Nevertheless, around the world, employment, both formal and informal, remains highly segmented by sex (Chen *et al.*, 2005; OECD, 2002; Tzannatos, 1999; Elson 1996). Women are often concentrated in forms of employment with lower earnings and less stability. In particular, in developing countries, women are less likely to be wage and salary workers than are men (Chen *et al.*, 2005; ILO, 2004b). In developed economies, women are much more likely to work part-time or in forms of non-standard work (OECD, 2002). The growth in women's employment, therefore, has been shaped by the segmentation of labour markets.

The expansion of women's labour force participation has occurred during a time in which the nature of employment had undergone a significant transformation (Standing, 1999a). As discussed previously, growth has slowed in many countries around the world over the past several decades. At the same time, the number of new employment opportunities which traditional industrial sectors – with their higher earnings potential – are able to generate has generally fallen. Women have been entering the labour force at a time when the number of quality employment opportunities has been declining in many regions of the world. In most cases, these women are not joining the ranks of the openly unemployed. Instead, many work as informal workers in precarious and low-productivity activities.

Before examining patterns of formal and informal employment, it is worth noting that not all women have been marginalized in the labour market during this period of economic restructuring. Today many women have employment opportunities that would have been closed to them a generation ago. Better education, smaller households, new opportunities and changing gender norms have reduced, but certainly not eliminated, gender-based economic inequalities in many regions. At the same time, not all women are equally positioned to take advantage of these opportunities. Therefore, we would expect to see growing inequalities among women workers, just as evidence has pointed to greater inequality among workers in general.<sup>16</sup> It is important to keep in mind the inequalities that exist among women and among men, not just between women and men, in our analysis of employment, poverty and economic policies.

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<sup>14</sup> According to ILO estimates, the global unemployment rate, including both men and women, grew from 5.6% in 1993 to 6.2% in 2003 (ILO 2004a).

<sup>15</sup> This holds for most regions of the world with a few exceptions. For example, Mehra and Gammage (1999) show a modest decline in women's share of employment in agriculture in the Middle East and the transition economies. In addition, their figures suggest that women's share of manufacturing employment also fell slightly in the Middle East.

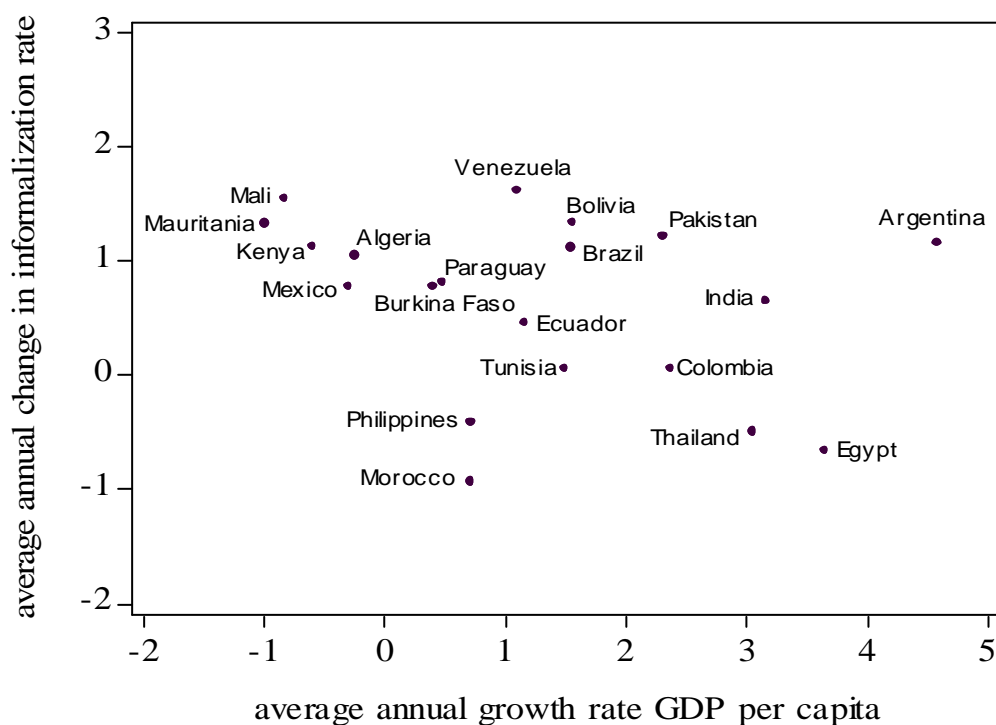
<sup>16</sup> McCrate (2000) documents growing class-based inequalities among women in the U.S.

### 3.3 Informal employment

Informal employment refers to employment which occurs outside of the formal legal and regulatory environment or which fails to give workers a minimum set of social protections. As discussed earlier, research suggests that informal employment has grown in many countries during the past several decades (Heintz and Pollin, 2003; ILO, 2002a; Benería, 2001; Castells and Portes, 1989). However, consistent and reliable statistics that track informal employment over time are only available for a handful of countries and for a limited period. This makes it difficult to generalize about the direction and speed of informalization.

Figure 4 presents a scatter diagram of changes in informalization – measured as informal employment expressed as a percentage of total employment – and average per capita GDP growth rates for a group of countries for which estimates over time are available. These estimates use an imperfect measure of informal employment. Informal employment is assumed to be equal to the difference between total employment estimated by household-level data (e.g. a labour force survey or a population census) and total employment estimated by a survey of registered firms or an economic census. This provides us with a rough estimate of how informal employment has changed over time – generally from the 1980s to the 1990s. Most all of the countries included in Figure 4 experienced a growth in informalization. Moreover, based on these estimates, informalization has increased in countries that have experienced respectable rates of per capita GDP growth.

*Figure 4.*  
*Average rates of per capita GDP growth*  
*and annual changes in informalization.*



Source: Heintz and Pollin (2003).

The trends shown in Figure 4, if accurate, are significant. One common assumption is that informal employment results from underdevelopment or poor economic performance. If this were true, then informalization should decline with economic growth and development. These patterns suggest that informal employment has been increasing faster than formal employment, even in countries with strong rates of growth. In other words, growth is not the only variable that matters. The *type* of growth is also significant.

However, economic growth is not irrelevant in determining how quickly informal employment expands. As suggested in Figure 4, the overall relationship between the rate of per capita GDP growth and the change in the degree of informalization is negative (Heintz and Pollin, 2003). That is, higher rates of growth are associated with smaller increases in the rate of informalization.<sup>17</sup> At very high levels of growth, informalization may decline.

Although we are limited in what we can say about changes in informalization over time, much more is known about patterns of informal employment as they exist today. Figure 5 presents estimates of non-agricultural informal employment as a per cent of total non agricultural employment for a range of countries in regions around the world.<sup>18</sup> What is striking about the estimates in Figure 5 is how significant informal employment is for developing countries. In many cases, informal employment accounts for the majority of non-agricultural employment. Moreover, informal employment frequently accounts for a larger share of women's non-agricultural employment than men's (Chen *et al.*, 2005; ILO, 2002b).<sup>19</sup> Figure 5 also suggests that the relative importance of informal employment declines as per capita GDP rises, although this relationship is not perfect.

Recent improvements in household surveys (e.g. labour force surveys and living standards surveys) in some countries allow a more detailed analysis of informal employment. Using such detailed data, informal employment can be measured directly, although gaps may still exist. Moreover, the data highlight differences in various forms of informal employment. Often, informal employment is assumed to represent an undifferentiated residual – that is, those who cannot find jobs in the formal economy are automatically employed informally. This conceptualization masks the heterogeneity that exists among informal workers.

A recent UNIFEM publication, *Progress of the World's Women 2005: Women, Work, and Poverty* (Chen *et al.*, 2005) presents new analysis of informal employment that explores these details, including the possibility of segmentation within the informal labour force itself. In particular, the report examines differences in employment by sex and employment status within both the formal and informal economies. Drawing on this research, Table 5 presents data on the distribution of informal employment by employment status, sector (agricultural

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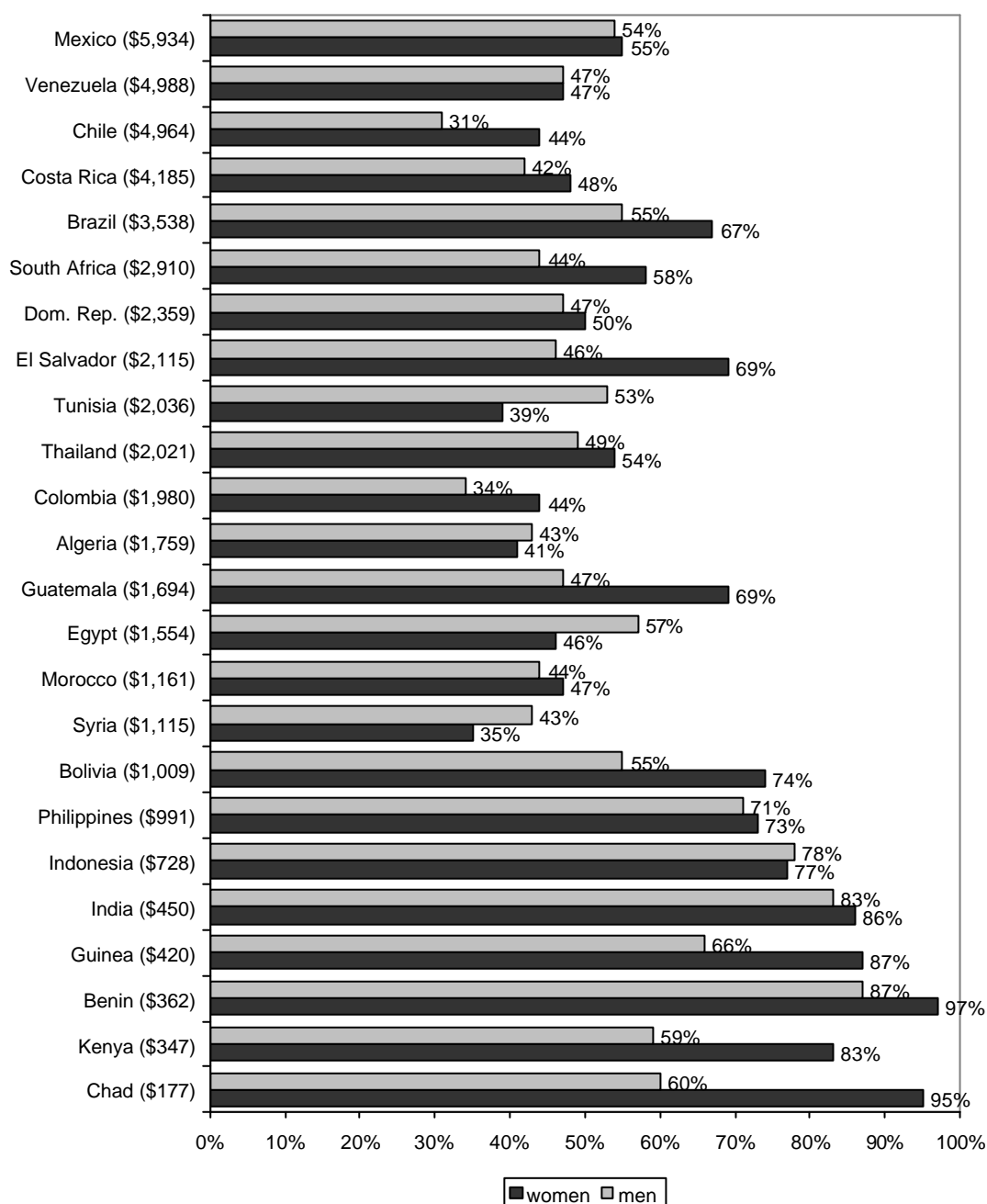
<sup>17</sup> The direction of causation is an issue that is difficult to resolve from the available data. That is, does the direction of causation run from economic growth to informalization or vice versa?

<sup>18</sup> For most countries in Figure 5, estimates are based on the differences in total non-agricultural employment as measured by household-level data and non-agricultural employment as measured by surveys of registered enterprises. For India, Kenya, Mexico, Tunisia, and South Africa, these estimates are refined using additional survey data on employment in informal enterprises (see ILO, 2002b). Note that some forms of informal employment may be excluded from these estimates – e.g. unpaid contributing labour on family enterprises – depending on the coverage of the surveys used to develop these estimates.

<sup>19</sup> In high-income, industrialized countries, women are disproportionately represented in non-standard and more precarious forms of wage employment. For example, part-time employment accounts for a much larger share of women's employment than men's in OECD countries (OECD 2002, p. 69). However, it should be noted that not all part-time jobs are informal. In some countries, e.g. Sweden, social protections are extended to part-time workers.

Figure 5.

*Estimates of informal non-agricultural employment as a percentage of total non-agricultural employment, 1994-2000 (GDP per capita, 2000, in parentheses)*



Source: ILO (2002b) and World Development Indicators 2005, Washington, DC: World Bank..

and non-agricultural) and sex for six developing countries – Costa Rica, Egypt, El Salvador, Ghana, India and South Africa.

According to these estimates, women and men are concentrated in different types of informal employment. For example, domestic workers and unpaid workers on family enterprises account for a larger share of women's informal employment than men's. In contrast, informal wage employment accounts for a larger share of men's informal

employment than women's.<sup>20</sup> In four out of the six countries listed in Table 5, non-agricultural own-account employment comprises a larger share of women's informal employment compared to men's, but informal agricultural employment accounts for a larger share of men's informal employment. In the two exceptions – Egypt and India – the most significant source of employment for women is working unpaid on a family enterprise – often in the agricultural sector.

In general, the types of informal employment in which women are concentrated – as non-agricultural own-account workers, domestic workers and unpaid workers on family enterprises – have lower hourly earnings and a higher risk of poverty than the types of informal employment in which men typically work – e.g. informal wage employment (Chen *et al.* 2005).

Informal agricultural employment does not exhibit a consistent pattern of sex segmentation in the countries featured here. Agricultural employment is particularly crucial for understanding the linkages between employment and poverty, since earnings are lowest and the risk of poverty highest for informal agricultural workers. In several of the countries featured in Table 5, informal agricultural employment accounts for a larger share of men's employment than women's employment. However, in some countries, there has been a "feminization of agriculture" (UNRISD, 2005; Deere, 2005; Mehra and Gammage, 1999). For example, in India, as men withdrew from agriculture into other occupations, women began to comprise an increasing share of agricultural labour (UNRISD, 2005).

In Latin America, women have often taken primary responsibility for smallholder production when men left the household to work as migrant labourers (Deere, 2005; Mehra and Gammage, 1999).

Even in those countries in which men are disproportionately represented in agricultural employment, a significantly large number of women are also employed in agricultural activities, frequently as own-account workers or unpaid workers on family farms. Also, it is important to recognize the growing importance of non-agricultural rural employment as means of diversifying livelihood strategies (Lanjouw and Lanjouw, 2001). Non-agricultural rural activities can be a particularly significant source of employment income for women (Deere, 2005).

Despite the recent improvements in data on informal employment, our understanding of the total employment picture remains incomplete. Some categories of informal employment are rarely captured in labour force surveys – in particular, industrial outworkers and home-based employment (Chen, Sebstad and O'Connell, 1999). These activities can be an important source of employment for women, but are frequently low-paid and highly precarious (Chen *et al.*, 2005). In addition, detailed household-level data on informal employment is currently only available for a limited number of countries. Comparable data compiled over several years is particularly hard to find, making any analysis of the impact of policy choices on informal workers difficult or impossible. Therefore, a better understanding of the effects of economic policies on all forms of employment for both men and women should be seen as a long-term project involving new sources of data and on-going research.

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<sup>20</sup> The single exception in Table 4 is agricultural wage employment in India.



*Table 5.*  
*Share of women's and men's informal employment by employment status category (per cent)*

		Non-Agricultural					Agricultural					Total
		Employer	Own-Account	Wage worker	Domestic	Unpaid Family	Employer	Own-Account	Wage worker	Domestic	Unpaid Family	
Costa Rica	W	8.0	37.4	20.2	24.9	6.0	0.6	1.0	0.6	0.0	1.2	100
	M	14.5	26.6	25.7	0.9	1.4	4.5	10.7	12.7	0.2	2.7	100
Egypt	W	0.4	3.9	6.2	n.a.	2.6	0.2	0.3	1.8	n.a.	84.6	100
	M	2.8	6.8	45.1	n.a.	4.5	11.3	4.4	15.4	n.a.	9.8	100
El Salvador	W	3.4	51.6	16.1	14.2	9.8	0.1	1.0	2.3	n.a.	1.4	100
	M	5.4	18.9	33.9	1.3	2.9	2.0	13.9	15.9	n.a.	6.0	100
Ghana	W	n.a.	39.0	4.6	n.a.	2.7	n.a.	33.1	0.3	n.a.	20.3	100
	M	n.a.	16.4	14.7	n.a.	1.4	n.a.	55.3	2.7	n.a.	9.5	100
India	W	0.0	6.3	8.0	n.a.	5.6	0.0	10.7	35.0	n.a.	34.4	100
	M	0.6	18.6	15.9	n.a.	3.7	0.1	24.0	25.6	n.a.	11.5	100
South Africa	W	3.0	16.2	43.0	25.6	1.6	1.4	2.0	7.1	n.a.	0.1	100
	M	6.3	9.5	57.8	1.2	0.7	1.9	2.6	19.8	n.a.	0.2	100

n.a. indicates that data were not available or that there were insufficient observations to derive statistically significant estimates.

Source: Chen et al. (2005)

### **3.4 Earnings and employment income**

Earnings are a central indicator of the quality of employment opportunities. Although people may have a variety of reasons for engaging in paid work, earning income is one of the most important. Most households around the world earn a living through some form of employment. Therefore, employment income is also an important determinant of the income poverty status of households. Even if we take a broad view of poverty – one that emphasizes capabilities and individual freedoms instead of just income (Sen, 1999) – employment earnings remain an important means to the ultimate goal of reducing poverty.

Wages and employment earnings vary enormously across countries. Differentials in labour productivity explain much of the variation in employment earnings observed – both across countries and over time. The relationship between higher earnings and improvements in labour productivity has been well-established (ILO, 2004c; Rama 2002a; Rodrik, 1999; Trefler, 1993). Long-run improvements in labour productivity are therefore necessary, but not sufficient, for sustainable increases in real employment earnings. For example, workers in highly competitive environments may not be able to capture a share of the benefits of productivity improvements. Instead, these benefits are captured elsewhere as lower consumer prices or higher profits. In these, and similar cases, productivity gains do not translate into better employment earnings. However, without improvements in average labour productivity, sustainable increases in average real earnings will remain unobtainable.

Have earnings been increasing in recent decades? This question has many possible answers, depending on the country, sector, type of employment and characteristics of the worker. In terms of aggregate wage employment on a global scale, Rama (2002a) found that real wages (expressed in U.S. dollars) have been increasing on average from the 1980s to the 1990s.<sup>21</sup> However, countries and regions show substantial variation. A recent ILO study, using similar data to Rama (2002a), found that real wages increased on average in both developing and developed countries, but the increase was significantly larger for developed economies (Majid, 2004). Variations become even more pronounced when comparing different country experiences. For example, the South Korean manufacturing sector has enjoyed real wage increases and productivity growth from 1990 to 2002 (ILO, 2004c, p. 40). In contrast, India has seen real wages in manufacturing drop significantly since 1980, despite steady productivity growth (ILO 2004c, p. 53).

Focusing on average wages obscures an important dynamic that has been observed in labour markets around the world – growing wage inequality, particularly between highly skilled and less skilled labour. More specifically, average wages may increase, even if the wages of low-paid workers stagnate or fall. Growing wage inequality in recent years has been documented for a number of countries and regions, both developed and developing (Majid, 2004; Mishel, Bernstein and Boushey, 2003; Rueda and Pontusson, 2000; Wood, 1997). When earnings inequality is expanding, changes in average real wages will not be a good indicator of the overall trends in the quality of employment if we are interested in uncovering the linkages between employment trends and poverty.

In addition, a narrow focus on wage employment and formal wage employment specifically, excludes shifts in earnings associated with growing informal employment and

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<sup>21</sup> Rama (2002a) uses data compiled by Freeman and Oostendorp (2000) which is based on the ILO's "October Inquiry" survey of wages.

the changing composition of employment. The analysis of trends in average real wages and wage inequality are limited to examining wage employment relationships. However, as pointed out in the previous section, informal employment accounts for a large share of total employment in many regions and the importance of informal employment appears to be growing over time, at least for a significant number of countries. Informal employment is not homogenous, but encompasses a variety of labour relationships and employment statuses. In particular, self-employment and own-account employment are widespread.

Earnings from informal self-employment and own-account work are not included in the analyses of real earnings described above, despite being an important source of income for a large number of households. In addition, earnings in these forms of employment are lower and more volatile on average than earnings from wage employment (Chen *et al.*, 2005). If these forms of employment expand rapidly relative to formal wage employment, then average real earnings from employment will fall, even if real wages are increasing. By failing to take into account the shifting composition of employment, the analysis of changes in real wages fails to provide us with a composite picture of what is happening to real earnings.

Consider the example of South Africa. Real wages for workers employed in the formal economy, based on data from national enterprise surveys, grew 15.4 per cent from 1995 to 2003.<sup>22</sup> However, analysis of labour force data from household surveys paints a very different picture. Using this data, researchers found that, over the same time period, real earnings fell by over 20 per cent (Casale, Muller and Posel, 2004). Although there are concerns about the accuracy of the earnings data in both surveys, two factors most likely account for the large discrepancies in the estimates of the change in real employment earnings over this period: (1) real earnings in informal employment fell on average and (2) informal employment accounted for a rising share of total employment (Casale, Muller and Posel, 2004). The statistics that exclude informal employment, therefore, are inadequate for describing overall trends in employment earnings.

Unfortunately, comprehensive measurements of employment earnings, both formal and informal, across all employment status categories over time are not readily available. Therefore, it is not possible to describe broad trends in earnings in recent years. Given the high levels of informal employment and the likelihood that informalization has been increasing as of late, the pattern of earnings observed in South Africa may also be observed elsewhere. More research is needed to more fully understand trends in employment earnings during this period of global integration.

Employed women generally earn less than men, on average and within specific employment categories (ILO, 2004b). There are a few exceptions to this generalization, but they tend to apply to very specific circumstances. For example, women engaged in formal wage employment in Egypt earn more on average than do men (Chen *et al.*, 2005). However, this is due to low labour force participation rates among women and patterns of labour market segmentation, in which large numbers of employed women work unpaid on family enterprises. Those few women that do have access to formal wage employment tend to be more highly educated on average than the much larger number of men who work in formal employment. Therefore, the fact that women in wage employment earn more than men is

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<sup>22</sup> Author's calculations based on data published by the Reserve Bank of South Africa and available on the Reserve Bank's website ([www.resbank.co.za](http://www.resbank.co.za)).

actually symptomatic of gender inequalities that tend to increase inequalities among women as well as between women and men.

Many factors are put forward to explain the gender gap in earnings – differences in education, shorter tenure in the labour market and interruptions in women's employment histories associated with raising children. Nevertheless, a large quantity of research has shown that, even controlling for education, age and job tenure, gender gaps in remuneration remain (OECD, 2002; Mehra and Gammage, 1999; Elson 1999). In part, this is due to the persistence of earnings gaps within occupational categories (Horton, 1999), suggesting that wage discrimination remains influential. Research suggests that earnings differentials between men and women are also apparent across the various forms of informal employment – including own-account employment and other forms of self-employment (Chen *et al.*, 2005). However, labour force segmentation is as important, if not more important, in determining the gap between women's and men's earnings. As noted earlier, women are disproportionately represented in lower paying forms of employment, often with fewer social protections and less stable incomes.

Has the gender gap in earnings narrowed over time? For developed economies, the evidence is fairly clear: the average gender wage gap appears to have narrowed, at least since the 1980s (OECD, 2002; Blau and Kahn, 1997). Improvements in women's educational attainment and labour force experience help explain the narrowing of the gap. The earnings gap between men and women may have narrowed in selected middle-income countries (Horton, 1999). However, some caution is warranted when interpreting these findings. For example, within specific occupations, the evidence is mixed across different countries (ILO, 2004b). In addition, much less is known about the gender earnings gap in low-income countries, where informal forms of employment, including widespread non-wage employment, dominate. If informal forms of employment comprise an increasing share of men's and women's employment, then the effect of the shift in employment composition, given the patterns of segmentation described above, needs to be taken into account in an assessment on the overall size of the gender earnings gap.

In addition, the structure of production and responses to global integration can impact changes in the gender wage gap. For example, Seguino (2000) notes that wage inequality between men and women in Taiwan increased while it decreased in Korea. She finds that capital mobility is one contributing factor to higher wage inequality in Taiwan. Since women are more concentrated in industries in which capital mobility is high, their bargaining power, and hence their wages, would fall relative to men as global integration progresses.

Women with access to formal wage employment may close the gender earnings gap while other women, excluded from these opportunities, may fall behind. This raises the importance of examining within-group, as well as between-group inequality. For example, studies of developed economies have shown that the degree of wage inequality among male workers varies along with the size of the gender wage gap (Blau and Kahn, 2001). That is, the more compressed the wage distribution for men, the smaller the gender wage gap is likely to be. Women tend to be disproportionately represented in the lower end of the wage distribution; therefore, a more compressed distribution can reduce the gender gap. This has a number of implications – for example, the greater the prevalence of collective bargaining, the lower the gender wage gap is likely to be. Similarly, if we are to understand the connections between employment and poverty from a gender perspective, then within-group inequality, among both women and men, is also important to take into account.

Employment income does not only depend on a standardized wage rate or earnings rate. It also depends on the conditions of employment – e.g. hours of work or days of work. The increase in women’s labour force participation in many countries means that women are spending more time in paid, market work. However, despite the increase in hours of paid work, evidence shows that women still work less on average in remunerative activities than do men (Chen *et al.*, 2005; OECD, 2001). Women’s total income from employment falls below that of men on average, not only because of lower earnings per hour or per day, but because women spend less time in paid work.

Women work significantly more time in unpaid, non-market activities than do men (UNRISD, 2005; Benería, 2003; OECD, 2001; Folbre, 1994). This limits the time that they can spend in paid employment. However, the increase in women’s labour force participation and the time dedicated to income-generating work has not meant a one-for-one reduction in the time spent performing non-market labour. Although the distribution of women’s labour time between market and non-market work varies for a number of reasons – including household composition and number of dependents – data from developed countries suggests that women employed in a full-time job spend more total time working in both paid and unpaid activities than do men (OECD, 2001).<sup>23</sup>

Time spent in unpaid care work limits women’s options when it comes to remunerative employment. The need to balance market and non-market work may explain some of the observed patterns of labour market segmentation. For example, in some countries, women engaged in informal employment work longer hours in both paid and unpaid activities than women engaged in formal wage employment (Chen *et al.* 2005). One reason for these observed patterns of work is that own-account employment, for example, may give women added flexibility to combine remunerative employment with unpaid care work – even if it means longer hours of work and lower average earnings.

### **3.5 Employment and poverty**

A widely used poverty threshold for international comparisons is the “dollar-a-day” poverty line. A person is considered poor if he or she is living in a household that earns less than the equivalent of one U.S. dollar per day per person. Suppose we define the “working poor” to be those people who are (1) employed and (2) living in households that fall below the poverty line. In 2004, the estimated size of the global working poor population, using the dollar-a-day standard, was 535 million people, or 18.8 per cent of world employment (Kapsos, 2004). In 2003, women accounted for an estimated 60 per cent of the working poor, even though they comprised just 40 per cent of all employment (ILO, 2004b). In other words, according to these estimates, employed women are more likely to be poor than employed men.

The rate of income poverty among the world’s employed population has fallen in recent years (Table 6). This decline in poverty rates may be due to better access to higher quality employment opportunities, but it also may be a result of women’s growing labour force participation – that is, women’s employment helps keeps families out of poverty. Furthermore, global remittances from international migrants have increased significantly in recent years (IOM, 2005). This could also lower the working poor poverty rates in countries where remittances are sizeable, even if the quality of domestic employment opportunities

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<sup>23</sup> However, women who do not participate in the paid labour market at all may work fewer hours in total than do men (OECD 2001).

*Table 6.*  
*Working poor as a percentage of total employment, 1990 and 2004*  
*(based on US\$1/day poverty line, adjusted for purchasing power)*

	<b>1990</b>	<b>2004</b>
<i>Latin America and the Caribbean</i>	16.1%	13.2%
<i>Sub-Saharan Africa</i>	55.8%	55.4%
<i>Middle East and North Africa</i>	3.9%	2.8%
<i>East Asia</i>	35.9%	15.7%
<i>Southeast Asia</i>	19.9%	10.9%
<i>South Asia</i>	53.0%	35.9%
<i>Transition Economies</i>	1.7%	4.7%
<b>World</b>	<b>27.5%</b>	<b>18.8%</b>

*Source: Kapsos (2004).*

does not improve. As Table 6 demonstrates, working poor poverty rates vary significantly from region to region. East Asia, Southeast Asia and South Asia experienced substantial reductions in their working poverty rates from 1990 to 2004. Working poor poverty rates increased over this same time period in the transition economies and were virtually unchanged in sub-Saharan Africa. The dollar-a-day poverty line is useful for simple international comparisons. However, it falls short of capturing the true incidence of poverty among employed individuals. For example, this poverty standard is incapable of measuring the size of the working poor population in high-income, industrialized economies. In addition, the use of purchasing power parity adjustments to derive the dollar-a-day threshold may understate the true extent of income poverty in developing countries (Reddy and Pogge, 2005).

Despite the substantial size of the working poor population, research has shown that access to employment is an important determinant of poverty status and household-level income inequality in both developed and developing countries (e.g. Kapungwe, 2004; OECD, 2002; Leibbrandt, Woolard and Borat, 2000). Access to employment lowers the risk of poverty. However, being employed provides no guarantee of escaping poverty, as the estimates of the working poor population demonstrate. The type, the quality and the stability of employment matter in determining how effectively improving access to employment opportunities reduces poverty.

Table 7 presents estimates of the differences in the relative poverty risk for workers in different employment status categories, disaggregated by sex, in Costa Rica, Egypt, El Salvador and Ghana. Relative poverty risk is defined as the poverty rate in a particular employment category expressed as a per cent of the poverty rate of formal, private, non-agricultural wage workers.<sup>24</sup> For example, if the poverty rate among domestic workers were three times the poverty rate among formal, private, non-agricultural wage workers, then the relative poverty measure would have a value of 300. From Table 7, one can see that poverty rates are higher in informal employment compared to formal employment, and in agricultural activities relative to non-agricultural activities. The types of informal work in which women are concentrated – e.g. own-account workers and unpaid workers on family enterprises – tend to have higher rates of poverty on average than wage employment.

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<sup>24</sup> National poverty lines, not the dollar-a-day poverty line, are used to calculate these figures.

Table 7.

Relative poverty rates: working poor poverty rates by sex and employment status category as a per cent of the poverty rate for formal, private non-agricultural private wage workers (F=female, M=male)

		Formal				Informal							
		Non-agricultural			Agric.	Non-agricultural					Agricultural		
		Own-acc'nt	Pvt. wage	Pub. wage	Pvt. wage	Own-acc'nt	Pvt. wage	Pub. wage	Domes tic	Unpaid	Own-acc'nt	Pvt. wage	Unpaid
Costa Rica	F	n.a.	100	n.a.	n.a.	735	330	n.a.	678	757	n.a.	n.a.	n.a.
	M	n.a.	100	51	244	249	205	n.a.	n.a.	158	644	598	571
Egypt	F	n.a.	100	64	n.a.	416	293	n.a.	n.a.	219	n.a.	n.a.	281
	M	69	100	100	n.a.	218	200	n.a.	n.a.	86	192	263	205
El Salvador	F	n.a.	100	30	n.a.	233	207	145	193	206	372	338	398
	M	197	100	80	184	179	197	155	210	214	573	161	376
Ghana	F	233	100	164	n.a.	257	n.a.	177	n.a.	314	334	n.a.	394
	M	173	100	166	n.a.	146	n.a.	174	n.a.	226	275	215	305

n.a. indicates that data were not available or that there were insufficient observations to derive statistically significant estimates.

Source: Chen et al. (2005).

Poverty rates appear to vary significantly between different employment statuses and types of employment (Chen *et al.*, 2005; Kapungwe 2004). Women are frequently concentrated in types of employment with high risks of poverty. However, within a particular employment category, no systematic pattern may be evident in terms of the difference in poverty risk observed for employed men and employed women – despite a gender gap in terms of employment income (Chen *et al.*, 2005).

This, seemingly contradictory, result arises due to the complexities involved when analyzing gender dynamics, employment and poverty. These complexities emerge when connecting employment status (frequently analyzed at the individual level) with poverty status (influenced by household-level dynamics). For example, the fact that women spend time in paid work can lower the household's risk of income poverty, since the additional employment income determines whether the household is considered poor or not. In households in which women do not engage in market work, the risk of poverty may be higher. Therefore, the poverty rate among working women may be lower on average than that among working men, even if women are engaged in precarious work with low earnings. To fully understand the connections between gender, employment and poverty, we must incorporate an analysis of the household into the analysis of employment and labour markets, an issue addressed in the next section of this report.



## 4. Feminization of labour and poverty

Two important discourses have emerged in recent years that shape how the relationships between women's paid work, employment and the risk of poverty are understood: the "feminization of labour" and the "feminization of poverty". These analyses were developed during the period of global integration and economic liberalization and therefore they have had a fundamental influence on how the social dimensions of globalization are analyzed – particularly, in terms of how globalization has affected the economic reality facing women. However, both these discourses, as traditionally defined, have serious limitations that may obscure, rather than clarify, the links between employment and poverty. Therefore, it is important to take some time to interrogate the dual feminizations of labour and poverty.

### 4.1 *Feminization of labour*

The "feminization of labour" framework, as initially outlined by Standing (1989), focuses on the significant increase in women's labour force participation that was discussed and documented in the previous section.<sup>25</sup> Women's entry into the paid labour force was seen as an important factor behind the increase in flexible work arrangements, growing informality and the deterioration in the average quality of employment. Women provided a new and lower-cost source of labour that could substitute for men's labour. Jobs became "feminized" as they took on characteristics traditionally associated with women's work: pay was low, drudgery increased, occupational mobility declined and employment became more uncertain.

This conceptualization of the feminization of labour is subject to criticism. For example, the casual link presumed to exist between women's labour force participation and growing precariousness may be spurious. That is, the growth of women's labour force participation and the expansion of informal and non-standard work could have been parallel processes. Since labour markets remain highly segmented by sex, the expansion of women's low-wage employment simply resulted from the growth of poor quality employment opportunities that were available to women (Vosko, 2002; Elson, 1996). Instead of an erosion of labour market segmentation that we would expect to see if there were widespread substitution of women's labour for men's, we would see persistence of segmentation, at least in many categories of employment (Vosko, 2002).

Under this alternative explanation of the observed trends, women's labour force participation is not a significant cause of informalization and casualization. Instead, other economic forces, including macroeconomic policies and development strategies, simultaneously influenced the rise of precariousness and the expansion of women's labour force participation.

The original feminization of labour framework also fails to integrate the division of labour between paid (market) and unpaid (non-market) work into its analysis. Women's supply of labour to market activities certainly increased with greater labour force participation. However, the constraints under which labour was supplied differ markedly between men and women. On-going responsibilities for childcare and other unpaid activities limit the labour market opportunities available to women. Under these conditions, part-time, own-account, or home-based work might be the best options for remunerative employment

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<sup>25</sup> In a later paper, Standing (1999b) refined some of the arguments that he first advanced in the 1989 article.

available to women. The gender roles and relationships that structure household work have a direct impact on the inequalities between men and women in the labour market. However, these constraints are not explicitly recognized in the original feminization framework.

We need a more nuanced understanding of these issues if we want to more fully understand the underlying causes of the rise of precarious employment for both women and men. Since low and unstable earnings typically characterize much of informal and non-standard employment, these fundamental changes to the nature of global employment are likely to have a deep and long-lasting impact on patterns of work, average living standards and poverty risk. However, rethinking the feminization of labour is only part of the story. The link between employment, gender dynamics and poverty is complex and requires a re-examination of the second “feminization”: the feminization of poverty.

#### **4.2 Feminization of poverty**

The “feminization of poverty” refers to the assertion that women account for a disproportionately higher share (and a growing share) of the world’s poor. Since women’s economic position is almost everywhere inferior to men’s – in terms of earnings, opportunities and assets – it seems reasonable to assume that women should face a higher risk of poverty. Female-headed households are a particular focus of the feminization of poverty approach. Given the economic disadvantages facing women, female-headed households are expected to have a higher poverty rate on average than male-headed households. However, in reality, the determinants of the poverty risks that women face are more complex (Chant, 2003; Razavi, 1999).

The empirical evidence supporting the broad applicability of the feminization of poverty argument is not strong. Studies have often found no clear relationship between female headship and poverty rates (Chant, 2003; Marcoux, 1998; Quisumbing, *et al.*, 1995). There are numerous reasons why this may be the case. Female-headed households can be extremely diverse and the roads to female headship divergent (Razavi, 1999). Therefore, not all female-headed households are disadvantaged to the same degree or in the same way. It may be more appropriate to talk of particular types of female-headed households in the context of women’s poverty risk, e.g. a family with children maintained by a woman alone (Folbre, 1991). Also, intra-household dynamics must be taken into account. For example, in some cases women in female-headed households may face fewer labour market constraints and exert more direct control over employment income than other households (Chant, 2003). Women may improve their welfare in other ways by leaving male-headed households – e.g. by escaping domestic violence.

The types of employment available to women, and to other earners in the household, matter for determining the risk of income or consumption poverty. This holds true for female-headed households and households in which women account for the majority of employment income. Table 8a illustrates this point by presenting income poverty rates for various household types in Ghana. The households are divided into two categories: those that earn the majority of their income through informal employment and those that earn the majority of their income through formal employment. In all categories, income poverty rates are significantly higher for those households that primarily depend on informal employment. The higher poverty rates cannot be explained by differences in the ratio of non-earners to earners, as Table 8b demonstrates. When households with a majority of informal employment income are compared to those with a majority of formal employment income, the ratios of non-earners to earners are virtually identical.

Table 8a shows that female-headship does not systematically explain differences in income poverty in Ghana. For households that earn a majority of their income from informal employment, poverty rates for female-headed households are higher than those of male-headed households. But poverty rates are not consistently higher for households in which women account for the majority of employment income earned or for female-headed households that earn a majority of their income from formal employment.

The estimates presented in Table 8a share a common problem with many other approaches to assessing the risk of poverty: poverty is defined only in terms of income or consumption measured at the household level. However, the distribution of income within the household may be as important, or in some cases more important, than the total income available to the household as a whole. This is particularly critical for understanding women's risk of poverty, since men may control income and expenditures at home (Chant, 2003). In addition, income represents only one economic resource that affects the risk of poverty. Access to various kinds of assets – physical assets, education and skills, natural assets and financial assets – determine the livelihoods available to the members of the household and influence the distribution of resources within the household (Rakodi, 1999; Deere and Leon, 2003).

Table 8a. Poverty rates by household type, 1998/9, Ghana (earners aged 15+).

	Head of Household (identified in survey)		Primary Earner (largest share of earnings)		All households
	Female-Headed	Male-Headed	Female	Male	
	Majority of earned income from informal employment				
One earner	67.4	67.1	67.7	66.7	67.2
Two earners	70.4	64.3	65.2	65.3	65.3
More than two earners	75.7	61.8	59.8	66.1	64.2
	Majority of earned income from formal employment				
One earner	43.3	47.1	45.9	46.0	45.9
Two earners	45.6	45.4	53.6	43.3	45.4
More than two earners	---	30.1	---	32.4	34.6

Table 8b. Ratio of non-earners to earners (15+) by household type, 1998/9, Ghana

	Head of Household (identified in survey)		Primary Earner (largest share of earnings)		All households
	Female-Headed	Male-Headed	Female	Male	
	Majority of earned income from informal employment				
One earner	2.4	2.6	2.6	2.4	2.5
Two earners	1.5	1.6	1.6	1.6	1.6
More than two earners	1.0	1.3	1.2	1.3	1.3
	Majority of earned income from formal employment				
One earner	2.2	2.7	2.3	2.7	2.5
Two earners	1.2	1.6	1.4	1.6	1.6
More than two earners	---	1.4	---	1.4	1.4

--- = insufficient observations

Source: Heintz (2005b).

As mentioned earlier, poverty is multi-dimensional and cannot be reduced to a metric based on income or consumption. In addition to market-derived income, definitions of poverty frequently take into account public goods and services, common-pooled resources and non-tangibles, such as health, safety and autonomy (Razavi, 1999). The non-income variables included as indicators of human development, which are compiled and analyzed by the UNDP (United Nations Development Programme), represent an effort to develop individual-level indicators of well-being that reflect this broader concept of poverty (Fukuda-Parr, 1999).

Since these indicators can be evaluated at the individual level, they may appear to solve the problem of the household/individual dichotomy that complicates the analysis of employment-poverty linkages. Recall that one of the problems with linking employment outcomes to poverty risk is that employment is defined at the individual level and income poverty is defined at the household level. Individual human development indicators do not have the same problem. However, household income and intra-household dynamics remain critical, since they influence the realization of these individual-level indicators of well-being. The way in which income, including employment income, translates (or fails to translate) into individual capabilities and human development matters greatly for any discussion of poverty (Sen, 1992).

Intra-household dynamics are important to take into account in terms of another link between employment and poverty: the division of labour between market and non-market work. Non-market work is essential for maintaining household's living standards and for sustaining human development. At the same time, women's paid employment can be essential for keeping household income above the poverty threshold. However, numerous trade-offs emerge when women extend their hours of market work. In some cases, women may work a "double-shift": extending their total hours of work without cutting back on the amount of unpaid labour they supply. In others, women may not be able to maintain the same level of caring labour once they enter the labour force. If men do not fill the gap, some of the gains in terms of market-based income will be lost in terms of non-market labour. Along similar lines, some forms of informal employment that allow women to combine market and non-market work may improve overall well-being, despite the low quality and precarious nature of such employment activities. Measurements of poverty and well-being should take these factors into account.

We have argued that the two feminizations – of labour and of poverty – do not provide an adequate framework for understanding the connections between employment (including women's employment) and poverty risk (including women's risk of poverty). Instead, we need a framework for linking employment and poverty, which takes into account interactions at three levels: (1) the household level; (2) at the level of intra-household dynamics; and (3) the individual level. Only by analyzing the employment-poverty nexus at each of these three levels, will an adequate analysis be produced. In addition, the gendered structure of informal and formal labour markets must be explicitly recognized. This involves acknowledging the sex segmentation of the labour force and the gender division of labour between paid and unpaid work. Finally, we need a better understanding of the determinants of women's and men's employment outcomes and the economic processes behind the rise of informal and precarious work.

Despite this call for a more complex analysis of the connections between gender relations, employment and poverty, one fact remains clear: women's paid employment is an

essential factor determining the risk of poverty that families face. Women's employment contributes to total household income; women's participation in the labour market can affect intra-household bargaining outcomes, conditional on decision-making processes and who controls the income; and access to employment has important implications for individual freedoms, capabilities and dignity. Exactly how women's employment affects social and economic well-being will depend on the institutional context and the gender relations that prevail in a given context. None of this diminishes the importance of understanding the economic factors that determine the quantity and quality of remunerative work.

This final issue is particularly critical. We need to understand to what extent the prevailing economic policy regime influences the "feminization of labour" – broadly defined – and the type of employment opportunities created for both women and men. It is to this issue that we now turn.



## 5. Economic policy regimes and employment

### 5.1 Macroeconomic policies and employment

As has already been stressed, the global economic landscape has undergone immense change in recent decades. Central to that process of change has been the adoption of a new set of economic policies, often seen as imperative for successful economic management in a globalized context. These policies have emphasized more rapid global integration, maintaining price stability, liberalizing markets, reducing the scope of the public sector, and encouraging cross-border flows of goods, services and finance (Pieper and Taylor, 1998).

This study is concerned with the impact of these changes on employment, and how policy choices have affected men's and women's employment differently. We have reviewed many of the broad trends in employment, labour force participation and informalization. However, we have not yet examined how economic policy regimes interact with, influence, and, in many cases determine, the trajectory of global integration and the shifting nature of employment worldwide. In this section, we examine what we know about the employment outcomes associated with four broad policy areas:

- monetary regimes and central bank policy;
- international trade;
- exchange rate policy; and
- fiscal policies and public sector restructuring.

These topics cover many of the policy tools that have been used to realize fundamental changes in the world economy – with enormous implications for global employment.

However, before delving into each of these policy areas individually, it is helpful to provide an overview of the impact of macroeconomic factors and international trade on employment more generally. To do this, we produced a series of econometric estimates that explore the relationships that exist between employment and a set of economic variables that are broadly indicative of the types of economic strategies that have been pursued in recent years. The objectives for looking into these relationships are twofold: (1) to provide a context for the more detailed policy discussion that follows and (2) to examine how these variables, taken together, influence employment outcomes.

In conducting this exercise, we examined the dynamics of total employment, women's employment and men's employment for 16 low- and middle-income countries from 1970 to 2003.<sup>26</sup> The selection of countries was based on those with reasonable long time series data on employment, disaggregated by sex. The economic variables used in the study were: (1) economic growth; (2) government expenditures; (3) exports of goods and services; (4) imports of goods and services; and (5) the short-term real interest rate. Trends in these variables provide a good description of the overall macroeconomic and policy environment. The variable definitions are summarized in Table 9.

We estimated how each of these variables affected the growth rate of total employment, women's employment and men's employment using an appropriate linear regression model. The technical details of the analysis, including the structure of the panel

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<sup>26</sup> The countries included Barbados, Chile, Colombia, Costa Rica, India, Jamaica, Kenya, Malawi, Malaysia, Mauritius, Panama, Philippines, South Korea, Sri Lanka, Thailand, and Trinidad & Tobago.

Table 9.  
List of employment and economic policy variables

Variable	Description
employment <sub>t</sub>	Total employment in time period t (natural logarithm).
men employ <sub>t</sub>	Men's employment in time period t (natural logarithm).
women employ <sub>t</sub>	Women's employment in time period t (natural logarithm).
govt spending <sub>t</sub>	Current government expenditures as a % of GDP in time period t (natural logarithm).
exports <sub>t</sub>	Exports of goods and services as a % of GDP in time period t (natural logarithm).
imports <sub>t</sub>	Imports of goods and services as a % of GDP in time period t (natural logarithm).
output <sub>t</sub>	Real GDP in time period t (natural logarithm).
interest <sub>t</sub>	Real short-term interest rates in time period t.

See appendix for more details.

Table 10.  
Impact of policy and economic variables on total employment, unbalanced dynamic panel estimates, 1970-2003, 16 low- and middle-income countries (dependent variable is employment<sub>t</sub>, variables expressed as first differences, coefficients of the Arellano-Bond 2-step estimation presented<sup>27</sup>)

Variable	Estimated Coefficient	P-values
		AB 1-step/AB 2-step
output <sub>t</sub>	0.007*	0.002/<0.001
govt spending <sub>t</sub>	0.119*	0.040/0.003
exports <sub>t</sub>	0.074***	0.200/0.014
imports <sub>t</sub>	-0.032***	0.483/0.020
interest <sub>t</sub>	-0.0008*	0.004/<0.001
employment <sub>t-1</sub>	-0.211*	0.005/<0.001
R <sup>2</sup>	0.074	
N	381	
Cross-sections	16	

\* significant at the 5% level, both Arellano-Bond 1-step and 2-step.

\*\* significant at the 5% level, Arellano-Bond 1-step.

\*\*\* significant at the 5% level, Arellano-Bond 2-step.

data, the stationarity of the variables and the estimation procedure used are described in the paper's appendix.

<sup>27</sup> Standard error estimates for the Arellano-Bond 2-step estimator may not always be reliable. Therefore, p-values for both 1-step and 2-step estimators are presented in both Table 10. The coefficient estimates correspond to the Arellano-Bond 2-step estimator.



How do these different economic factors impact real employment outcomes? Table 10 presents the estimates of the impact of changes in these policy/economic variables on *total* employment. The estimates in Table 10 are coefficient estimates. Therefore, a positive coefficient indicates that an increase in the value of variable in question – e.g. exports – is associated with faster employment growth. A negative coefficient indicates that the variable and employment move in opposite directions.

As would be expected, the results show that expansion of output (GDP) is associated with an increase in total employment, controlling for other factors. However, the estimations also show that the *type* and *composition* of growth matter for employment performance. For example, the higher the government share of GDP associated with a particular rate of economic growth, the greater the growth rate of employment. A stronger export orientation appears to improve employment performance, but import penetration, measured by the value of imports as a fraction of GDP, slows employment growth. Finally, a high interest rate tends to reduce employment growth, perhaps by discouraging fixed capital investment in the economy.

Table 11.

*Impact of policy and economic variables on women's and men's employment, unbalanced dynamic panel estimates, 1970-2003, 16 low- and middle-income countries (dependent variable is either women employ<sub>t</sub> or men employ<sub>t</sub>, variables expressed as first differences, coefficients of the Arellano-Bond 2-step estimation presented<sup>28</sup>)*

<u>Variable</u>	<u>Women's employment</u>		<u>Men's employment</u>	
	<u>Coefficient</u>	<u>p-value</u> <u>(1-step/2-step)</u>	<u>Coefficient</u>	<u>p-value</u> <u>(1-step/2-step)</u>
<i>output<sub>t</sub></i>	0.003	0.372/0.195	0.002	0.126/0.114
<i>govt spending<sub>t</sub></i>	-0.042	0.270/0.711	0.007	0.474/0.839
<i>exports<sub>t</sub></i>	0.069*	<0.001/0.058	-0.034	0.125/0.144
<i>imports<sub>t</sub></i>	0.004	0.943/0.820	-0.032***	0.282/<0.001
<i>interest<sub>t</sub></i>	-0.0005*	0.051/0.001	0.0003	0.387/0.071
<i>men employ<sub>t</sub></i>	0.925*	<0.001/<0.001		
<i>men employ<sub>t-1</sub></i>			-0.040	0.123/0.433
<i>women employ<sub>t</sub></i>			0.468*	<0.001/<0.001
<i>Women employ<sub>t-1</sub></i>	-0.102*	0.003/0.002		
R <sup>2</sup>	0.49		0.50	
N	381		381	
Cross-sections	16		16	

\* significant at the 5% level, both Arellano-Bond 1-step and 2-step.

\*\* significant at the 5% level, Arellano-Bond 1-step.

\*\*\* significant at the 5% level, Arellano-Bond 2-step.

<sup>28</sup> P-values for both 1-step and 2-step estimators are presented in Table 11. The coefficient estimates correspond to the Arellano-Bond 2-step estimator.

We would expect the various economic factors examined here to affect women's and men's employment differently. To see if this is the case, we examined the impact of the same economic variables on the growth rate of employment for women and men separately. These results are presented in Table 11. Again, a full discussion of the technical details of these estimates and the associated econometric model can be found in the paper's appendix.

The results in Table 11 suggest some interesting gender-based differences in the reaction of employment to the various economic factors. Women's employment responds positively to the level of exports and negatively to the real interest rate. The estimates do not show a statistically significant impact of these variables on men's employment, controlling for other variables. In contrast, men's employment may respond negatively to import penetration, while no such independent effect is found with respect to women's employment.

Why would the volume of imports and exports affect men's and women's employment differently? In many countries, the growth of women's employment – particularly formal employment and wage employment – has been concentrated in tradable sectors, in particular, in export-oriented production (Kabeer and Mahmud, 2004; Benería, 2003; Elson, 1996; Elson and Pearson, 1981). Export-producing sectors prefer to employ women for many reasons: to lower labour costs, to introduce flexible forms of employment, and to increase control over the workplace. Therefore, it is not surprising that an increase in export volume would be associated with faster growth of women's employment.

Interestingly, the estimates do not show that women's employment is a close substitute for men's employment. In the estimates of the determinants of women's employment, the coefficient on men's employment is very close to unity. This suggests that women's employment tends to increase proportionately to an exogenous increase in men's employment. However, in the estimates of the determinants of men's employment, the coefficient on women's employment is approximately 0.47. In other words, men's employment does not respond nearly as strongly to an exogenous change in women's employment. The fact that women's and men's employment appear to be complements, rather than substitutes, provides an additional piece of evidence for labour market segmentation. If there were no segmentation, we would expect to see more evidence of women's labour substituting for men's.

These estimates provide insight into the nature of the "feminization of labour" during this period of global integration. According to these estimates, increases in trade – both imports and exports – directly impact employment. But the net effect depends on the composition of trade. Exports generally have a positive impact on employment, while imports have a negative impact. The expansion of exports has a particularly noticeable positive impact on women's employment, while the expansion of imports negatively affects men's employment. If the expansion of trade involves an increase in both exports and imports, we are likely to see a "feminization of labour" as an outcome of global integration. In addition, the negative effect of import penetration on men's employment may squeeze household resources and lead to an increase in female labour force participation, depending on household-level decision-making over the division of labour between market and non-market activities. Moreover, if the growth in export sectors leads to an increase in women's employment, these estimates suggest that we should see a less-than-proportional increase in men's employment. All of these factors would contribute to the "feminization of labour" discussed earlier.

A number of variables were shown to affect total employment, but there was no evidence of a separate gender-specific effect. These variables include economic growth and government spending. The lack of a gender-specific impact of government spending on employment is somewhat surprising, since public employment is often an important source of jobs, particularly formal jobs, for women. Perhaps an aggregate measure of government spending is not sufficient for picking up these differences, due to variations in the composition of government spending and the details of budget allocations. We examine public sector reform and fiscal policy in more detail later in this section.

It is important to acknowledge that the data used in these estimates will most likely fail to capture the full extent of informal employment, particularly “hidden” types of informal employment, such as home-based work and domestic work. The incomplete coverage of informal employment raises some important concerns about the interpretation of these results. When we discuss “women’s employment” or “men’s employment” in the context of the analysis presented here, we must remain cogniscent of the fact that we cannot generalize these results to encompass all employment. This remains a shortcoming of the exercise. Nevertheless, the estimates do suggest a connection between economic policies and informalization, to the extent that an expansion of the most precarious forms of employment is partially due to the lack of better opportunities elsewhere in the economy. Economic policies that slow growth, raise short-term interest rates, reduce government spending, or encourage imports without promoting a strong export response will likely reduce the growth rate of decent jobs. The specific impact on men and women would depend on the precise mix of policies adopted.

This empirical analysis provides some general insights into possible connections between economic policy choices, employment responses and gender-differentiated outcomes. However, the exercise is highly aggregated and based on pooled data from a diverse, yet limited, number of low- and middle-income countries. Therefore, we are constrained in terms of what we can really take away from such a study. In order to deepen out insights and analysis, it is helpful to examine each of the policy areas listed above in turn. We begin with monetary and central bank policies.

## ***5.2 Monetary and central bank policy***

In recent decades, monetary policy in most countries around the world has focused on price stability and inflation reduction. For some, this has meant adopting “inflation-targeting regimes” in which the central bank announces a target inflation rate – or a target range for inflation – and then crafts monetary policy to meet these publicly declared goals. Not all countries have formal inflation-targeting monetary regimes. However, a large number have inflation-reduction targets built into their macroeconomic strategies. For example, the Poverty Reduction Strategy Papers (PRSPs), which many low-income countries have produced, almost always have some form of inflation-reducing target as a guideline for monetary policy. Many advanced industrial economies manage monetary policy with a stated goal of keeping inflation rates low, even if they have not formally adopted inflation-targeting.

The rationale for maintaining low rates of inflation is straight-forward: low and stable inflation is assumed to support more rapid economic growth in the long-run. Often, it is recognized that, in the short-run, efforts to rein in inflation may involve real economic costs, in the form of slower growth or rising unemployment. However, the assumption is that, in the long-run, very low rates of inflation will support more rapid growth. Proponents of this view presume that, over time, the benefits of lowering inflation will outstrip the costs.

The evidence that the benefits of lowering inflation are greater than the costs is mixed. Both the costs and the benefits of reducing inflation depend on numerous factors, one of the most important being the prevailing rate of inflation (Epstein, 2003). Research suggests that annual rates of inflation above 15-20 per cent can have large negative consequences for economic growth. If initial inflation rates are significantly above 20 per cent, then inflation-reducing monetary policy would likely be beneficial to growth and employment. On the other hand, sustained inflation rates of around 20 per cent or lower do not appear to have significant negative impacts (Bruno and Easterly, 1998; Pollin and Zhu, 2005). Most inflation-targeting regimes and other inflation-reduction policies aim to keep inflation rates in the lower single digits (Epstein, 2003). Efforts to continually push inflation down to very low levels are likely to generate high costs and relatively few benefits.

There are a number of other concerns about very low target rates of inflation. In some cases, inflation reduction through tight monetary policy leads to an appreciation of the real exchange rate (discussed in more detail below). Real exchange rate appreciation reduces export competitiveness, encourages import penetration, shifts the distribution of resources towards non-tradable sectors, and can have a negative impact on employment and growth (Frenkel and Taylor, 2005). In many low-income countries, increases in domestic inflation often result from adverse supply-side shocks, particularly in terms of food and energy prices. Insofar as the central bank tightens monetary policy in response to such inflationary shocks, a pro-cyclical bias is introduced into macroeconomic policy formulation. That is, the reaction of the monetary authorities may make the negative impacts of an adverse external shock worse.

One of the justifications given for announcing formal inflation targets is that such policy declarations, coming from the central bank, can influence expectations if the policy announcements are deemed credible. If inflationary expectations are reduced as a result, lowering inflation would involve fewer costs, in terms of foregone growth or employment creation, relative to reducing inflation using direct monetary controls alone. However, there is little evidence that formal inflation targeting involves smaller short-run sacrifices in terms of output or employment (Epstein, 2003).

What is the impact of inflation-reducing monetary policy on employment, in general, and women's employment, specifically? Braunstein and Heintz (2005) have studied changes in the patterns of formal employment across periods of inflation reduction in order to see how central bank policy impacts employment opportunities. It is worthwhile examining this analysis in some detail.

The empirical exercise that Braunstein and Heintz (2005) conducted explores the effects of inflation reduction on women's and men's formal employment. We compiled data for 51 "inflation-reduction episodes" in 17 low- and middle-income countries.<sup>29</sup> To assess the employment effects of inflation-reduction periods, actual employment trends, disaggregated by sex, were compared to long-run employment trends, and estimated by applying a Hodrick-Prescott filter to the employment series.<sup>30</sup> In addition, the behaviour of short-term real interest rates and real exchange rates were analyzed across the various inflation reduction episodes. Again – long-run trends were estimated by applying a Hodrick-Prescott filter to the interest rate and exchange rate series.

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<sup>29</sup> The selection of countries was limited to those for which reliable, gender-disaggregated formal employment data were available over a sufficiently long time period.

<sup>30</sup> The Hodrick-Prescott filter is a statistical smoothing technique that is widely used to obtain an estimate of the long-term trend component of a series.

*Table 12.*  
*Inflation-reduction episodes and deviations from long-run  
employment trends, disaggregated by sex*

**A. Contractionary Inflation-Reduction Episodes**

	Episode	Deviations from Long Run Employment Trends			Ave. actual real short-term interest rates relative to long-run	Difference in ave. growth rates of actual and long-run real exchange rates
		W	M	Ratio		
Barbados	1980-86	-1.8%	-0.8%	-1.0%	above	-0.3%
	1990-94	-2.5%	-2.6%	0.1% *	above	+1.1%
	1996-99	-1.0%	0.3%	-1.4%	above **	-1.2%
Brazil	1993-99	-0.7%	-0.1%	-0.6%	n.a.	+1.1%
Colombia	1980-85	-3.2%	-2.5%	-0.7%	above **	+2.2%
Costa Rica	1982-85	-1.5%	-0.1%	-1.4%	neg.	-6.7%
India	1973-77	-0.2%	-0.4%	0.2% *	neg.	+1.6%
	1982-86	-0.1%	-0.2%	0.1% *	above	+0.8%
	1991-94	0.1%	-1.2%	0.2% *	below	+3.6%
	1997-02	-1.0%	0.9%	-0.2%	below	+0.4%
Jamaica	1974-76	-0.5%	-0.2%	-0.3%	neg.	-9.0%
	1992-00	-0.5%	0.1%	-0.6%	neg. **	-0.6%
Kenya	1975-80	-2.2%	-0.1%	-2.1%	neg.	-3.5%
	1981-87	0.8%	-0.3%	1.1% *	below	+1.7%
Malaysia	1981-86	-0.4%	-0.8%	0.4% *	above	+4.5%
Mauritius	1980-86	-0.6%	-1.6%	0.9% *	neg.	0.0% ***
	1989-93	-1.3%	-0.3%	-0.9%	below	+1.8%
	1994-96	-1.8%	-0.9%	-0.8%	above	-4.0%
Philippines	1973-76	-1.6%	-0.4%	-1.2%	neg.	-3.9%
	1980-82	0.2%	-0.3%	0.5%	neg.	+0.8%
	1984-87	-2.4%	0.0%	-2.3%	neg.	0.0%
Singapore	1974-76	-6.7%	-0.7%	-5.9%	neg.	+3.9%
	1981-86	-1.8%	-2.0%	0.1% *	above	+2.8%
South Korea	1980-85	-1.4%	-0.9%	-0.5%	neg.	+7.0%
	1991-94	-0.4%	0.0%	-0.4%	neg.	-0.4%
	1997-00	-1.2%	-1.1%	-0.1%	neg.	+6.7%
Sri Lanka	1981-86	-0.7%	0.1%	-0.8%	above	-0.7%
	1997-99	-0.7%	-2.6%	1.9% *	above	+1.7%
Taiwan	1974-76	-4.9%	0.3%	-5.1%	neg.	n.a.
	1980-85	0.6%	-0.5%	1.1% *	above	n.a.
	1991-02	-0.4%	-0.2%	0.2% *	below	n.a.
Thailand	1974-76	-1.3%	-0.8%	-0.5%	n.a.	-0.2%
	1980-85	-2.6%	-0.7%	-1.8%	above	+3.7%
	1990-93	-0.8%	0.1%	-0.9%	above	-1.9%
	1997-00	-0.8%	-0.7%	-0.1%	above	+7.0%
Trinidad & Tobago	1980-87	-1.0%	-0.6%	-0.4%	neg.	+2.7%

Table 12(cont.)

**B.Expansionary Inflation Reduction Episodes**

		DEVIATIONS FROM LONG-RUN EMPLOYMENT TRENDS			Ave. actual real short-term interest rates relative to long-run	Difference in ave. growth rates of actual and long-run real exchange rates
	period	W	M	Ratio		
Brazil	1989-92	1.9%	-0.8%	2.8%*	n.a.	0.0%
Chile	1984-88	0.8%	2.3%	-1.5%	below	+2.9%
Costa Rica	1991-93	0.2%	1.6%	-1.4%	below	-4.8%
Jamaica	1979-82	0.1%	0.5%	-0.4%	neg.	-2.2%
	1985-88	2.9%	0.5%	2.3%*	neg.	-7.8%
Kenya	1993-96	0.9%	-0.3%	1.3%*	below	+5.7%
Malaysia	1992-96	0.6%	1.4%	-0.8%	below	-4.6%
Mauritius	1974-77	3.9%	1.6%	2.1%*	n.a.	n.a.
Philippines	1990-94	0.2%	0.3%	-0.1%	below	-1.8%
Singapore	1990-99	0.1%	0.1%	0.0%	below	+0.4%
Sri Lanka	1974-76	1.9%	3.1%	-1.1%	neg.**	-1.0%
	1989-94	8.9%	3.6%	4.9%*	below	-0.3%
Trinidad & Tobago	1974-77	0.2%	1.0%	-0.8%	neg.	-1.0%
	1989-92	3.8%	1.6%	2.1%*	above	-3.8%
	1993-96	0.7%	0.6%	0.2%*	below	+1.4%

\* Inflation reduction episodes in which the ratio of women's to men's employment increased more rapidly than the long-run trend.

\*\* Interest rate behaviour reported for an alternative periodization: from one year before the inflation-reduction episode to half-way into the inflation-reduction episode. In these cases, this alternative better reflects monetary response to peak inflation.

\*\*\* Average real exchange rates were compared over the period 1981-86 for Mauritius, due to data limitations.  
Source: Braunstein and Heintz (2005).

The methodology used was drawn from the literature on measuring “sacrifice ratios” – that is, the loss of output or employment associated with a given reduction in inflation. Ball (1993) outlines an approach for identifying deflationary periods. For the purposes of this discussion, Ball's approach was adapted in order to examine the gender-specific effects of inflation reduction and central bank policy. A moving average of inflation – in this case, a three-year moving average, encompassing one previous year and one subsequent year – was used to smooth the series. Peaks and troughs in the smoothed inflation series were identified. Peaks occur when the value in a particular year exceeds the values of immediately adjacent years. Troughs occur when the value in a given year falls below the values of the adjacent years. A deflationary period runs from a peak year to the next trough year.

We use the term “inflation-reduction episode” to refer to these deflationary periods. The reason for this is that, during some of the periods identified, employment actually expands more rapidly than its long-run trend. It seems confusing to refer to these periods as “deflationary”. Therefore, we use the terms “expansionary inflation-reduction episode” and “contractionary inflation-reduction episode”. During contractionary inflation-reduction episodes, the rate of increase of total employment fell below its long-run trend. During expansionary inflation-reduction episodes, the rate of increase of total employment was equal to or greater than its long-run trend.

Data for this analysis came from the ILO's LABORSTA database, the IMF's *International Financial Statistics* and the World Bank's *World Development Indicators 2005*. Only countries that fulfilled the following criteria were included:

- Only low- or middle- income countries were examined;<sup>31</sup>
- Countries must have at least 20 years of employment data, disaggregated by sex; and
- In some cases, time series with a small number of missing values were used. Missing values were estimated by extrapolating between the previous and subsequent values in the series.

Changes in employment across inflation-reduction episodes were calculated as the annualized value of the overall rate of change in employment across the entire peak-to-trough period.

Table 12 summarizes the results for all the inflation-reduction episodes studied. The table shows the country name, the dates of each inflation-reduction episode and the deviation from the long-run trend for women's employment, men's employment and the female to male employment ratio. Negative values indicate that the series grew more slowly than the long-run trend (a negative value could also indicate a more rapid decrease in the actual value compared to the long-run trend). Table 12 is divided into contractionary and expansionary inflation reduction episodes.

The majority of the inflation-reduction episodes examined here were contractionary in terms of their effect on employment. Of the 51 employment reduction episodes, 36 (or 71%) were contractionary – meaning that total employment growth fell below its long-run trend.

Moreover, in 67 per cent of contractionary inflation-reduction episodes, the rate of change of the female to male employment ratio fell below its long-run trend, indicating that women's formal employment was disproportionately affected by the slowdown. However, in expansionary inflation reduction episodes, there was no clear pattern. The female to male employment ratio increased faster than trend in 53 per cent of cases and at or below trend in 47 per cent of cases – nearly an even split.

The difference in employment experiences across countries during inflation-reduction episodes – e.g. expansion or contraction of employment – might be explained, in part, by policy choices. For example, if real interest rates rose above the long-run trend in reaction to an acceleration of inflation, this could trigger a contractionary inflation-reduction episode. However, if real interest rates were not raised above the long-run trend (e.g. they were kept in line with the long-run trends of global interest rates), a contraction of employment might be avoided.

To examine this possibility, we looked at average real short-term interest rates across the inflation reduction episodes.<sup>32</sup> In most cases, short-term rates linked directly to monetary policy choices were used (e.g. a discount rate or bank rate). If these rates were unavailable,

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<sup>31</sup> The sample of countries includes Singapore which could arguably be classified as a high-income country today. However, for much of the period considered in this paper, 1970-2003, Singapore was considered a middle-income country.

<sup>32</sup> Due to its extreme volatility, Brazil was excluded from this analysis.

yields on short-term (3 month) Treasury bills were calculated instead.<sup>33</sup> Table 12 presents comparisons between average actual short-term interest rates and average long-run trend interest rates. If average actual short-term interest rates were above the long-run average and if actual rates were positive, Table 12 labels this pattern “above.” If average actual short-term interest rates were both positive and below the long-run average, Table 12 classifies this pattern “below.” However, if actual average real interest rates were negative, these inflation-reduction episodes are labelled as “neg.”

When inflation is controlled while maintaining positive raising real interest rates at or below their long run trend, inflation-episodes are more likely to be expansionary. In Table 12, in only one expansionary episode were short-term interest rates raised above the long-run average (Trinidad and Tobago, 1989-92). In 85 per cent of the contractionary inflation-reduction episodes, average real interest rates were either negative on average or maintained above the long-run trend. Why might a contraction of employment be associated with negative real interest rates? In many cases, negative real interest rates are associated with a “stagflationary” economy, in which a negative external shock drives up inflation and pulls down growth simultaneously. The high rates of inflation produce negative real interest rates. For example, many of the stagflationary inflation-reduction episodes presented in Table 12 can be connected with the oil price shocks of the 1970s.

There do not appear to be any systematic patterns with respect to changes in the real exchange rate across inflation reduction episodes and whether the episode was contractionary or expansionary. In 34 per cent of inflation reduction episodes, the average annual percentage point change in the real exchange rate was below that of the long-run exchange rate (i.e. the exchange rate appreciated relative to its long-run trend); in 60 per cent of the episodes, the difference in average growth rates was positive (i.e. the actual real exchange rate depreciated relative to the long-run trend); and in 6 per cent of the episodes there was no difference between the growth rate of the actual and long-run real exchange rates. These ratios were approximately the same for contractionary and expansionary inflation reduction episodes.<sup>34</sup>

Real exchange rates appear to have an impact on the gender bias observed in contractionary inflation-reduction episodes. Recall that, in the majority of cases, women’s formal employment was disproportionately affected by the slowdown in employment growth. However, about a third of the time, the ratio of women’s to men’s employment actually improved when compared to its long-run trajectory. In each of these cases, the real exchange rate either depreciated or showed no deviation relative to its long-run trend. In other words, maintaining a competitive exchange rate may offset some of the gender bias observed during contractionary inflation-reduction. This is not surprising given the fact, as noted earlier, that export-oriented production is an important source of employment for women in many countries. Maintaining a more competitive exchange rate would help protect employment in these sectors.

To sum up the results of this exercise: reducing inflation frequently has a negative impact on employment growth. When employment growth slows, women’s employment is often disproportionately affected. Employment growth is most likely to slow down when

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<sup>33</sup> Only in the case of Jamaica were the t-bills used to determine actual interest rates and to estimate long-run trends.

<sup>34</sup> In contractionary episodes, 36% of the episodes showed an appreciation, 58% a depreciation, and 6% no difference in the average growth of the real exchange rate relative to its long-run trend. In expansionary episodes, the percentages were 34%, 60%, and 7%, respectively.



interest rates are raised above their long-run trend in an effort to reduce inflation. “Stagflation” – often characterized by negative short-term interest rates and triggered by an external shock – also can cause a contraction in employment growth. There does not seem to be a systematic relationship between changes in the real exchange rate over inflation-reduction episodes and patterns of aggregate employment growth. However, maintaining a competitive exchange rate could help to counter the disproportionately negative impact on women’s employment when total employment growth slows down.

A few caveats should be kept in mind when interpreting these results. The empirical analysis presented here concerns the short-run, gender-specific impacts of policy responses during inflation-reduction episodes. The results say little about the long-run impact of different policy responses. Supporters of inflation-targeting frequently acknowledge that short-run trade-offs might exist, but the long-run benefits of low inflation for growth and development are more significant. This argument is problematic when transitory policy shocks have long-run consequences for real economic variables (Fontana and Palacio-Vera 2004). Similarly, short-term gender-specific shocks can have long-run effects for a country’s human and economic development. For example, such short-run disruptions could reduce the investment in women’s education and skills development. More research is needed to examine the long-run consequences of the short-run adverse outcomes for women.

Second, as with much of the analysis presented in this report, the data used may not capture the full extent of informal employment. Therefore, the degree to which these findings are applicable to all forms of employment remains uncertain. More needs to be known about the entire range of informal activities and the relationships that exist between informal employment, formal activities and the global economy in order to accurately describe the consequences of the dominant monetary regime for informal workers. Nevertheless, the analysis presented here is a first step along this path.

### **5.3 Trade and employment**

The rapid increase in international trade is one of the defining features of modern economic globalization. The growth in world trade is indisputable. Most countries around the world have embraced a general policy of trade liberalization in recent decades – i.e. the removal of trade quotas and the lowering of tariff trade barriers. Although there has been a move towards greater trade liberalization, numerous controls, protections and subsidies still exist and are the focus of on-going negotiations. The impact of trade and trade liberalization on employment and earnings inequalities is one of the best-researched topics relating to the broader question of the impact of globalization and related policy shifts on employment and labour market outcomes. Despite the volume of research in this area, definitive conclusions or generalizations that are broadly applicable remain elusive. Nevertheless, much can be learned by reviewing what is known and where the gaps in our understanding may be found.

Much of the research on the employment effects of trade is framed within the context of standard trade theory in the Heckscher-Ohlin tradition (Heckscher and Ohlin, 1991).<sup>35</sup> The simple Heckscher-Ohlin model assumes two countries, two factors of production and two products. Let us consider an example in which the two factors of production are labour and

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<sup>35</sup> Heckscher-Ohlin trade theory refers to a set of theoretical propositions developed by two Swedish economists in the first half of the 20<sup>th</sup> century. The theory asserts that patterns of trade are based on differences in comparative production costs. Cost differentials are linked to the relative abundance of resource endowments. In this model, countries should specialize in goods that utilize their most abundant resource and trade with other countries for goods that depend on scarcer factors of production.

capital.<sup>36</sup> In one country, capital is the abundant resource. In the other, just the opposite holds: the availability of capital is constrained, but the supply of labour is relatively plentiful. In addition, one of the two products is produced with labour-intensive technology while the other is produced with capital-intensive techniques. With uninhibited flows of goods between the two countries and well-functioning markets, each country will specialize in producing the product that utilizes its abundant resource and, as a result, aggregate income will be improved. In particular, wages should increase in the labour-abundant economy, raising the employment incomes of workers.

Trade theory in the Heckscher-Ohlin tradition provides a useful analytical framework for making theoretical predictions of the likely impacts of trade liberalization. However, numerous real-world complications confound the employment outcomes that are actually observed (Ghose, 2003). For example, the predictions of the model become much more uncertain when the number of countries, products and factors of production are greater than two. Market failures and imperfections impede the realization of the theoretical predictions. Most importantly for the purposes of this paper, if labour is not fully mobile within a country and if employment opportunities are rationed (i.e. involuntary unemployment exists), the type of specialization needed within the Heckscher-Ohlin framework may not take place, especially not in the short-run. It is important to note that labour market regulations are not the only source of imperfections in the labour market. Information asymmetries, contracts that are costly to enforce, and some degree of market power among employers are commonplace in most labour markets.

The empirical efforts to understand the impact of trade on employment and labour market outcomes have a number of problems. Many studies do not have a good measurement of the extent of trade openness which is comparable across different countries. Often, total trade volume is used instead – i.e. the total value of exports and imports combined. However, trade volume may be a poor indicator of trade openness. In addition, total trade volume may obscure critical differences in the types of trade flows. As suggested by the empirical estimates presented at the beginning of this section, the volume of exports and imports have different effects on employment, with distinct impacts on men's and women's employment. Therefore, the effect of "trade openness", defined as increases in trade volumes, depends on whether such openness is dominated by export growth or import penetration. Finally, studies that do focus on actual trade liberalization (e.g. reductions in tariffs) may not control for other policy variables when assessing the effects of freer trade. For example, if depreciation in the exchange rate accompanies trade liberalization, the reported effects of liberalization may be understated if the offsetting impact of exchange rate movements is not taken into account.

Despite these numerous cautions and caveats, the literature on the impact of trade openness on employment provides numerous useful insights. Country-specific studies are particularly useful, since they provide a level of detail frequently missing in large cross-country or cross-industry analyses. A common finding is that the impacts of the expansion of trade are diverse. The effects of greater openness vary among different types of firms, different industries, countries with different industrial structures and the types of policy changes pursued. In addition, aggregate trends in employment or unemployment often fail to capture the dislocation and churning that significant change in the trade regime can cause (Rama, 2002a; Levinsohn, 1999).

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<sup>36</sup> A common variation on this example of the Heckscher-Ohlin type argument assumes that the two factors of production are skilled labour and unskilled labour.

Many studies, both at the firm level and using more aggregated data show a negative impact of trade liberalization on employment, at least in the short run (Revenga, 1997; Edwards, 2003; Levinsohn, 1999; Márquez and Pagés, 1997; Moreira and Najberg, 2000). However, the effect of liberalization varies significantly. Different sized firms appear to have different responses to liberalization in different countries (Edwards, 2003; Levinsohn, 1999). The type of liberalization also matters: for example, fewer restrictions on imported inputs were shown to raise employment among manufacturing firms in Mexico (Revenga, 1997). Real exchange rate dynamics may be more important in explaining the employment decline in tradable sectors than trade policy (Levinsohn, 1999). Finally, it is important to acknowledge that such studies are essentially short-run, static analyses and may ignore dynamic effects (Lall, 2004). For example, post-liberalization shifts towards more labour-intensive activities may mitigate these employment losses in the long-run, depending on the response of the productive structure over time (Moreira and Najberg, 2000).

The scale of the export response relative to the import response appears to determine the impact of trade openness on employment. For example, a study of the process of global integration in Vietnam showed that net employment responded vigorously to the growth of the country's export-oriented sector (Jenkins, 2004). However, the rapid growth of the export sector occurred while many restrictions on imports were firmly in place, limiting the negative impact of import penetration. The experience of Vietnam is similar to the successful employment records of many of the "Asian tigers" during the period in which high rates of economic growth were sustained. Many of these countries pursued an export-oriented strategy while protecting domestic producers from imports (Amsden, 2001). In contrast, analysis of aggregate employment in South Africa during the country's recent trade reforms showed an almost negligible employment effect (Edwards, 2001). This is because the positive effects of export growth were nearly entirely offset by the negative consequences of import penetration.

For many countries, the employment impacts of trade openness are gender-specific. Many countries that experience net employment gains due to the increase in exports also see rapid increases in women's employment in these burgeoning export sectors (Kabeer and Mahmud, 2004; Jenkins, 2004; Benería, 2003; Rama, 2002a; Standing, 1999b; Elson and Pearson, 1981). The importance of women's employment in export-oriented production has been stressed repeatedly in other sections of this report. It was also evident in the results of the brief empirical study presented at the beginning of this section. As mentioned in the discussion of those results, it may be the case that men are disproportionately impacted by the employment losses associated with import penetration while women disproportionately gain from the jobs created through export growth.

Because of this dynamic, the connections between women's employment, the gender division of labour and trade liberalization are complex. If men's employment declines with import penetration, women's labour supply may increase as a survival response to falling household incomes. In some circumstances, some of these women may find jobs in the expanding export sectors. However, not all women are employed in the export sector; others work informally or in other precarious jobs. The net impact on the unemployment rate is ambiguous. Many countries experience an increase in their unemployment rates following liberalization (Rama, 2002a). This is likely a result of the combined impact of increased labour force participation and job losses from import penetration.

Trade liberalization affects the composition of employment. In many cases, the quality of new jobs in export sectors falls below that of formal jobs elsewhere in the economy (Rama,

2002a). Growth of casual employment may also be associated with trade liberalization. For example, a study of the impact of trade liberalization in Morocco found little net change in aggregate employment, but a significant increase in the use of part-time and temporary workers by some firms (Currie and Harrison, 1997). Lower-quality and more precarious jobs frequently account for a large share of the increase in women's employment during this period of global integration (Chen, *et al.*, 2005; Standing, 1999b). Moreover, women frequently take on the higher levels of employment risk associated with global integration (Benería, 2001). For example, in Chile, the amount of employment dislocation and churning associated with economic liberalization was significantly higher for women than for men (Levinsohn, 1999).

Wages are often used as an indicator to track changes in job quality associated with international trade. One hotly debated topic is the impact of trade on wage inequality – in both developed and developing countries. The theoretical argument relies on the Heckscher-Ohlin reasoning outlined above. However, instead of capital and labour, the two factors of production are skilled labour (assumed to be abundant in developed economies) and unskilled labour (assumed to be abundant in developing economies). As trade openness increases, the theory predicts that we should see a fall in the earnings of unskilled labour in developed countries and a rise in the wages of unskilled labour in developing countries. This should result in growing wage dispersion in developed economies and a narrowing of the wage distribution in developing countries.

As described earlier, growing wage inequality has been documented in many high-income countries and numerous studies have shown that this could be a result of the expansion of international trade (for a review of the core studies and alternative explanations, see Cline, 1997). This evidence would seem to confirm the predictions of the Heckscher-Ohlin theory. However, other researchers have argued that skills-biased technological change better explains the growth of wage dispersion than does the increase in trade. It is very difficult to quantify the nature of technological change over time. Therefore, it becomes nearly impossible to accurately control for technological change when assessing the impact of trade. The debate over the impact of trade on the wage distribution in affluent countries remains unresolved. The growth of trade has likely added to wage inequality, but it is difficult to say how large the contribution actually has been.

The usefulness of the simple Heckscher-Ohlin framework for predicting trends in wage inequality became more questionable when wage inequality was found to be growing in a number of *developing* countries that were well-integrated into the global economy (Milberg, 2004; Wood, 1997; Robbins, 1996). As in the case of developed economies, it is difficult to untangle the effects of technological change and global integration. Furthermore, not all developing countries with highly integrated markets experienced a growth of wage inequality. In many East Asian economies during the period of rapid economic growth, the expansion of trade was associated with declining wage inequality (Wood, 1997). Some research has suggested that trade openness tends to increase wage inequality in developing countries, but if higher levels of trade are associated with more rapid economic growth, these secondary growth effects may counteract rising inequalities over time (Majid, 2004).

The impact of trade on earnings inequality also has a gender dimension. As we have seen, export-producing sectors have provided women with new opportunities for employment. Among other factors, the ability to cut labour costs provides employers with an incentive to

employ women. In some cases, the growth of export sectors has led to a narrowing of the wage gap between women and men (Benería, 2003; Berik, 2000; Seguino, 2000).

However, the narrowing of the gender wage gap may take place in the context of growing precariousness of jobs for both women and men (Berik, 2000). As mentioned previously, whether increased trade leads to a narrowing of the gender wage gap or not depends on the nature of labour force segmentation, the structure of the economy and the relative bargaining power of men and women in the sectors where they work (Seguino, 2000). In other cases – as shown by a study of women working in the Mexican *maquila* sector – jobs in exporting sectors may provide a more stable, but not a higher income for women, compared to informal employment (Fussell, 2000). In other words, whether liberalization raises or lowers the wage gap depends on the impact of openness on the relative bargaining power of men and women.

Equally importantly, studies of trade openness and wage inequality do not tell us much about the relationship between trade openness and the overall level of inequality in employment earnings. This is because the earnings of self-employed workers, informal own-account workers and some informal wage workers are often excluded from the analysis, due to the paucity of data. More broadly, we cannot make generalizations about the impact of globalization on the average quality of employment or shifts in the composition of employment – in which precarious work becomes more common. Such changes will affect the overall inequality in employment earnings. Moreover, changes in the overall distribution of employment earnings are likely to exhibit a highly gendered pattern, given the extent of labour market segmentation documented in the previous section. As discussed early, this makes it difficult to analyze the impact of trade openness on the gender gap in earnings.

We know little about the impact of trade on informal workers, particularly own-account workers and home-based workers. A few studies have explored the impact of trade liberalization on informal employment. These studies found some connection between trade reforms and certain aspects of informality, but they found no general relationship between trade liberalization and growing informalization (Soares, 2005; Goldberg and Pavcnik, 2003). However, we need more detailed time series data on informal employment before being able to make definitive statements one way or another.

Discussions of trade, liberalization and employment tend to emphasize the amount of trade that takes place, but often do not pay attention to how international production is currently organized. However, the organization of global production networks has a profound effect on how the benefits of cross-border exchanges are distributed. Lead corporations in global production networks subcontract out lower value added activities to producers and suppliers further down the global supply chains. In many cases, numerous intermediaries coordinate this outsourcing activity. A number of activities are typically subcontracted out: for example, low-wage production of brand-name consumer goods, labour-intensive assembly operations using high-technology imported component parts and telecommunications-based customer services. Some degree of market power exists among the multinational lead corporations, but highly competitive conditions prevail among the subcontracted firms. Under such conditions, much of the value produced along the global supply chain is captured as higher profits among lead firms or lower prices for relatively affluent consumers in higher income markets (Heintz, 2005a; Milberg, 2004; UNCTAD 2002).

The structure of global commodity chains and the expansion of outsourcing and subcontracting have important implications for employment outcomes. In developed economies, the growth of outsourcing has been linked to growing wage inequality (Feenstra and Hanson, 1999). This is a variation on the idea of trade-induced wage inequalities. However, in this case, it is not an outcome of within-country specialization *per se*, but rather a result of the profit-maximizing restructuring of large multinationals.

In developing countries, outsourcing can provide new employment opportunities (Heintz, 2005a; Milberg, 2004). These opportunities are concentrated in low-wage/low value-added activities. In many cases, countries do not specialize in producing a particular product; instead, they specialize in supplying low-cost labour (UNCTAD 2002). Moreover, workers in such productive activities face intense competitive pressures from other workers around the globe. Under such conditions, countries stand a real risk of running a “race to the bottom” in which competitive conditions keep the returns to labour low. By specializing in the supply of low-wage labour, workers can find themselves in a low-wage/low value-added “trap” in which the benefits of any productivity improvements are captured, not as higher standards of living, but as lower prices or higher profits elsewhere along the supply chain.

In many countries, jobs integrated into global commodity chains provide important sources of employment for women. These opportunities are not restricted to wage employment in formal export sectors, as has been highlighted frequently. Many home-based workers, who earn piece-rate wages, also are tied into global production networks (Chen, *et al.*, 2005; Carr, Chen and Tate 2000; Chen, Sebstad and O’Connell, 1999). Such employment often provides women with economic opportunities that may have been inaccessible in the past. However, the prospect for improving the quality of these activities over time is not encouraging. Moreover, different actors along the supply chain capture the benefits produced in proportion to their market power. Subcontracted women workers have little market power and therefore receive a small fraction of value produced.

What can we say about the impact of trade liberalization on employment, in general, and women’s economic opportunities, in particular? This report has argued that there is no single answer or simple generalization. A great deal of heterogeneity is evident in terms of experiences, and different groups bear the costs of liberalization unequally. In particular, the gender-specific effects of trade and globalization are necessarily sensitive to specific socio-economic, historical and institutional circumstances (Benería, 2003). Furthermore, the effects of trade reforms depend on how such changes are coordinated with macroeconomic policies. One crucial link is the impact of exchange rates on employment outcomes.

#### **5.4 Exchange rate policy and capital flows**

Exchange rates impact employment by influencing the distribution of economic resources between tradable and non-tradable sectors. Monetary policy, international trade, foreign exchange markets and cross-border capital flows all influence exchange rates and, in turn, employment outcomes. Moreover, movements in exchange rates affect men’s and women’s employment differently, depending on the structure of the economy and the nature of labour market segmentation. As we have seen, women in wage employment are often concentrated in export-oriented sectors. An appreciation of the exchange rate – which directs resources away from traded sectors and towards non-traded sectors – can have a disproportionately negative impact on women.

Monetary policy and exchange rate regimes have undergone numerous changes in recent years. We have already reviewed one of the major targets of modern monetary regimes – maintaining low inflation. However, it is helpful to see low inflation targets in a broader policy context. Currently, the dominant trend is to move to a monetary/exchange rate regime characterized by:

- free capital flows – no capital controls or other restrictions on capital mobility;
- a floating, market-determined exchange rate – i.e. non-intervention in the foreign exchange market; and
- monetary interventions to keep inflation low, often by influencing short-term interest rates through money market interventions.

In the macroeconomics component of many poverty reduction strategy papers (PRSPs), this is the monetary/exchange rate policy adopted.

Under this regime, low inflation targets can lead to the appreciation of the real exchange rate over time. The real exchange rate is defined as the nominal exchange rate adjusted for the domestic price level relative to the price level prevailing among a country's major trading partners. Both the nominal exchange rate and the domestic price level influence global competitiveness. An appreciation in the nominal exchange rate or an increase in domestic prices reduces export competitiveness and makes imports more attractive. Similarly, a depreciated exchange rate and lower domestic prices improves competitiveness and discourages import penetration. The real exchange rate is a combination of these two factors – the relative price level and the market exchange rate.

Why does this set of policies lead to an overvaluation of the real exchange rate? As mentioned earlier, monetary authorities frequently use short-term interest rates as a weapon against inflation. However, short-term capital flows are attracted to high real interest rates. As capital flows into a country, the nominal exchange rate appreciates. If inflation rates do not change, then the real exchange rate will also appreciate. However, high short-term interest rates may lower inflation while bidding up the nominal exchange rate.<sup>37</sup> Nevertheless, if the appreciation of the nominal exchange rate outweighs the deflationary impact of short-term interest rates, real exchange rates will still appreciate.

The connection between low-inflation rates and over-valued real exchange rates can be framed another way. In many countries, changes in the exchange rate lead to increases in the domestic price level due to higher prices for imported goods, or increases in the prices of commodities traded on world markets but expressed in the domestic currency. If a country has a reasonable degree of this kind of price pass-through, then an inflation target implies a real exchange rate target. Specifically, an appreciated real exchange rate is consistent with low inflation.

We have seen that the impact of trade flows on employment and wage inequality depends on the composition of those flows. The expansion of exports may generate new employment opportunities, but import penetration can undermine these employment gains. We know that export growth can have a positive impact on women's employment opportunities. The results of the empirical model developed at the beginning of this section

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<sup>37</sup> High short-term interest rates are not always deflationary. In many developing countries, they may be inflationary. This occurs if higher interest payments are passed on as higher prices. This will occur when interest payments are sensitive to the prevailing market rate and when producers has sufficient market power to pass on price increases to consumers or other domestic producers.

suggested that import penetration may have a stronger negative impact on men's employment. Therefore, an over-appreciated real exchange rate is likely to be bad for both women's and men's employment, by decreasing exports and encouraging import penetration. In addition, we saw in the analysis of inflation reduction and monetary policy that the disproportionately negative impact of anti-inflation policies on women may be partially countered by maintaining a competitive real exchange rate during inflation-reduction episodes.

The liberalization of capital markets associated with modern monetary and exchange rate regimes presents a second set of problems: the increased economic volatility associated with short-term capital flows. Inflows of short-term capital can devastate an economy if the flows suddenly reverse, leading to a rapid depreciation of the currency. The examples of economic and financial crises over the past decade that were triggered by short-term capital flows are numerous, and include Mexico, East Asia, Brazil, Russia, Turkey and Argentina. A rapid and uncontrollable depreciation of the currency can lead to a large-scale economic contraction, mass displacement of workers and failure of the banking and financial system.

Few in-depth studies exist of the labour market response to such crises, including the employment response for men and women. A recent review of the literature suggests that, in most cases, the biggest impact may be the decline in real wages, not a crisis in terms of aggregate employment (Fallon and Lucas, 2002). In other words, the impact on the returns to labour was the most significant factor affecting workers' risk of poverty. A recent study by McKenzie (2004) of the 2002 Argentine crisis, using household panel data, showed a dramatic decline in real employment incomes as a result of the crisis and a general rise in unemployment rates. However, only 10 per cent of the fall in income could be explained by job loss – the real wage effect dominated the impact on incomes.

The employment response to the crisis in Argentina was different for men and women. Male workers experienced a larger net decline in employment due to the crisis. Women increased their labour force participation in response to the deterioration of real household incomes caused by the crisis. Therefore, women's net employment fell relatively less than men's because the loss of women's jobs was partially offset by an increase in women's labour force participation (McKenzie, 2004). However, the average quality of jobs – measured in terms of returns to labour – fell at the same time, suggesting that more women may have found themselves in low-paid, precarious employment. For low-income households, a portion of the negative effect on employment incomes of the crisis was off-set by government work relief programmes.<sup>38</sup>

In contrast, women's employment seems to have declined disproportionately during the East Asian economic crisis of 1997-8 (Aslanbeigui and Summerfield, 2000). Women were often the first to lose their jobs in South Korea, Thailand and Indonesia. In addition, there were large decreases in real earnings as a result of the crisis, placing downward pressures on household incomes. As in Argentina, women's participation in both unpaid and paid work increased as a result of dwindling household resources (Aslanbeigui and Summerfield, 2000).

The impact of exchange rate regimes and financial crises on informal employment is under-researched. Much more needs to be known about the detailed types of informal employment, the relationships that exist with the formal economy and the distribution of informal activities between tradable and non-tradable sectors. For example, street vendors

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<sup>38</sup> The *Jefas y Jefes* work relief programme was established in 2002 to address the negative employment consequences of the Argentine crisis.



who sell imported goods may see their returns to labour increase with a real exchange rate appreciation, especially if domestic demand is not overly reduced. However, a home-based garment worker linked into a global supply network may experience a decline in her employment earnings due to the same appreciation. Therefore, the heterogeneous nature of informal employment and pervasive labour market segmentation must be taken into account when analyzing the effects of exchange rates on the entire spectrum of employment. Unfortunately, in most cases, we do not yet have enough information to make good, educated guesses about the impact of these important policies on the most vulnerable workers.

### **5.5 Fiscal and public sector policies**

The public sector plays a critical role in employment creation, both as a direct source of opportunities and in facilitating the provision of employment elsewhere in the economy. During the period of market-oriented economic reforms, there has been an emphasis on reforming the public sector to redefine and often reduce the role of the state in the economy. There have been two dominant interventions associated with public sector reform: (1) changes to fiscal policy, the budget and direct government taxation and expenditures and (2) restructuring of state-owned enterprises, often involving whole or partial privatization. In both cases, cuts to public sector employment are often part of the package. However, these two policy areas have different implications for employment – particularly if gender dynamics are taken into account – and we examine each in turn.

During the recent era of economic liberalization, there has been an emphasis on limiting deficit financing for public expenditures and simultaneously minimizing the tax burden. The net effect of these policy directions is to reduce public spending relative to overall economic activity. In addition, other policies pursued under the general rubric of “economic reform” – such as trade liberalization – further reduced government resources by eliminating important sources of revenues (Toye, 2000). The justifications for public sector reform emphasize promoting private sector performance and maintaining a sustainable fiscal stance. Two general explanations are often advanced for why government spending may impede private sector growth – depending on whether spending is debt-financed or financed through tax revenues. First, expansion of public borrowing may raise interest rates, reduce private investment and curtail consumer expenditures. The public sector “crowds out” economic activity in the private sector. Second, higher tax burdens may discourage private investment, particularly when capital is mobile across borders.

Numerous assumptions lurk behind these “crowding-out” arguments that may or may not hold in reality. First, the argument assumes that government spending leads to a decrease, rather than an increase, in private sector activity. Particularly in developing countries, appropriate government spending can “crowd-in” private investment. Second, some of the channels through which crowding-out is assumed to occur may not function as theory predicts. For example, government deficits may not have a strong effect on interest rates, depending on the nature of the financial sector and monetary policy. Tax regimes can differ greatly in their effect on private sector activity. Finally, even if the resources available to the public sector represent a loss to the private sector, public sector activity may not always be less efficient than private sector activity. In a world of externalities, incomplete markets, transactions costs, imperfect property rights, concentrated market power and economies of scale, this assumption is often not valid.

Even if crowding-out is minimal or non-existent, constraints to deficit-financed spending remain. Deficit financing can lead to high levels of public debt that demand an

increasing share of public resources for interest payments, leaving a smaller share of the budget for productive expenditures. The expansion of debt-servicing costs is likely to become unsustainable when growth is low (limiting revenue collection) and interest rates are high (raising the cost of debt). Therefore, other policies, including monetary policy and the overall growth strategy, affect the sustainability of public expenditures.

The primary concern of this report is the quantity and quality of employment generated under different policy regimes. The empirical estimates presented at the beginning of this section suggested that, for a given rate of economic growth, a higher share of government expenditures relative to GDP is associated with more employment. Put another way, the public sector is an important direct source of job opportunities. Cuts in government expenditures, therefore, are likely to have a negative impact on employment, unless changes in other variables produce an off-setting positive effect. Indeed, government sector retrenchments frequently are a necessary complement to reform programmes that aim to reduce the role of government (Haltiwanger and Singh, 1999).

The estimates from the highly-aggregated model did not reveal a gender-differentiated impact of government spending on the growth of total employment for women and men. However, public employment has been an important source of formal, regular employment for women in many developed and developing countries (Chen, *et al.*, 2005; Adserà, 2004).<sup>39</sup> Therefore, austere fiscal policies that reduce public employment are likely to limit the number of relatively high-quality formal jobs available to women. Due to sex segmentation in the labour market, a similar quality of wage employment may not be as accessible to women in the private sector.

Fiscal policy also has a number of indirect impacts on employment. As mentioned above, public spending – particularly expenditures on infrastructure, education and skills-building – can have “crowding-in” effects, increasing private investment and promoting economic growth. Poor quality infrastructure and underinvestment in human resources raises the cost of production and reduces productivity, harming competitiveness and lowering the growth rate of incomes. Public investment and provision of services can be particularly crucial for informal employment (Chen *et al.*, 2005). For example, when municipal governments arrange to make space and basic services available to street vendors, the quality of the working environment improves significantly.

Other categories of budgetary expenditures can have indirect impacts on employment outcomes. Social services, income support measures and the provision of public goods impact labour force participation and employment in highly gendered ways (Budlender, 2004). When such services are cut, households adjust in numerous ways that affect men and women differently (UNIFEM, 2002; Benería and Feldman, 1992). The amount of both paid and unpaid work that women perform may increase with fiscal reform. For example, public cutbacks can reduce the number of clinics in a region and therefore increase the unpaid time needed to walk to the next facility to access basic health services. Similarly, public cutbacks that reduce household monetary resources (e.g. cutting transfer programmes or raising fees) create pressures to increase the amount of remunerative work performed. The recent reforms to family income support programmes in the United States makes women’s participation in

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<sup>39</sup> “Government employment” is frequently defined as a subset of “public employment”. Therefore, the terms should not be used synonymously. Women may be disproportionately represented in the provision of public services, such as education or healthcare, but under represented in core government administrative positions (OECD, 2002; Budlender, 1997)

paid work (or an acceptable substitute) compulsory in order to receive certain forms of public aid.

Public sector reform is not limited to changes in fiscal policies and budgetary frameworks. The restructuring of state-owned enterprises – often through a process of privatization – is another policy area that has moved forward in the majority of economies around the world. The arguments for privatization are frequently similar to those for government sector downsizing. Public enterprises are often seen to be inefficient relative to private enterprises, due to poor incentive structures, bloated work forces and mismanagement. Private enterprises are assumed to be less prone to these problems. In addition, the issue of fiscal sustainability remains relevant. Loss-making public enterprises are a drain on public resources and their debt is a public liability. Privatization is often pursued as one strategy for addressing these challenges.

Privatization and government divestment almost always involve a reduction in the work forces of the enterprises in question, although the size of the retrenchments varies (Rama, 1999; Kikeri, 1998). For example, a study of the employment impacts of reducing state ownership in Vietnam found that, if the level of state ownership were reduced to zero, roughly half of all employees in the affected enterprises would lose their jobs (Belser and Rama, 2001). In some cases, the retrenchments occur in preparation for privatization. When this is the case, actual state divestment may not reduce employment further, since most of the job losses occurred prior to privatization (Kikeri, 1998).

The net effect of privatization on employment depends on numerous factors. In some cases, privatization may involve new investments in productive capacity. Under these circumstances, the negative impact on employment may be offset, at least in part. However, the overall effect on employment is complex. Many public enterprises are responsible for supplying essential economic services that affect production costs and competitiveness – such as transport facilities, basic utilities and telecommunication services. If the cost of these services rises after privatization, or access is limited in terms of small or informal producers, employment and earnings could suffer.

The gender-specific effects of the restructuring of public enterprises differ markedly from that of government downsizing. This is a result of the patterns of segmentation of the public sector labour markets. Many public firms are involved in capital-intensive activities with male-dominated workforces. In these cases, privatization would have a disproportionate impact on men's employment (Rama, 2002b). The effect on women's employment is likely to be more indirect. The loss of men's jobs will affect household earnings and could increase women's labour force participation. Similarly, if privatization negatively affects informal activities through changes in economic services, this could have gender-specific effects due to the patterns of labour force segmentation observed in the informal economy.

Outsourcing to private firms represents another aspect of public sector restructuring that has significant implications for employment. Outsourcing within the public sector represents a partial privatization of targeted government activities. There has been a rise in the outsourcing of public sector activities in both developed and developing countries in recent years. Outsourcing is primarily pursued as a cost-saving strategy, often as a strategy for public sector downsizing (Burgess and Macdonald, 1999; Young, 2002). Therefore, working conditions and the quality of employment deteriorate on average following outsourcing (Burgess and Macdonald, 1999). In some cases, outsourcing involves a transition from

regular, full-time employment to non-standard, part-time, or contingent work. In this respect, outsourcing contributes to the growing informalization of the labour market.

Although public sector restructuring and shifts in the fiscal policy stance clearly have enormous implications for the level and quality of employment in a country, surprisingly little research exists to document the implications. Even less is known about how these fundamental changes to the public sector affect men's and women's employment differently. In current development thinking, much more emphasis is placed on the role of the private sector in creating employment opportunities. The relative lack of attention to the appropriate role of the public sector in terms of supporting and sustaining adequate employment represents a noticeable gap that should be filled.

## 6. Policy alternatives for employment-centred development

The previous section presented a critical overview of the impact of the dominant trends in economic policies on the quantity and quality of employment. The general diagnosis is not encouraging. In general, many of the policies adopted during the past few decades of market-based reforms would have had an overall negative impact on employment, and frequently a disproportionately strong effect on women's employment. The consequences of these policies extend beyond employment outcomes, with important implications for poverty, women's unpaid labour and the long-run trajectory of human development. However, the dominant policy model does not represent the only, and arguably not the best option available to countries, even in a globally integrated context. Alternatives exist.

Before examining the elements of an alternative employment-centred policy, it is helpful to layout some general principles, drawn from the discussion and analysis presented in this report, for creating a strategy aimed at improving employment opportunities for poverty reduction. As has been stressed throughout, these principles must necessarily incorporate a gender perspective. We suggest three overarching themes that should inform the development of an alternative framework: (1) the need for policy coordination and an integrated approach; (2) the explicit recognition of the importance of all types of employment, particularly informal employment; and (3) the need to take into account unpaid labour as well as paid employment.

***Policy coordination and integration:*** This report has shown that a multitude of factors influence employment dynamics: macroeconomic policies, trade regimes, budgetary constraints, gender segmentation of the labour force, skills and education, household-level bargaining and the interaction between market and non-market work, among others. No one single policy area can address the challenge of creating decent employment opportunities geared towards poverty reduction. Moreover, uncoordinated policies undermine the attainment of specific employment-oriented objectives. For example, an over-valued exchange rate can doom an effort to generate employment opportunities for women through the development of non-traditional exports. Therefore, a coherent approach to employment policy is needed. This requires the integration of gender-specific interventions and analysis into the entire employment framework. Without such a coordinated framework, the success of specific strategies to improve employment opportunities will be compromised.

***Recognition of all forms of employment:*** Often discussions of employment or labour market policies assume a standard form of wage employment. However, "standard" or "typical" forms of employment may not be the most relevant for achieving equitable growth or reductions in poverty. As pointed out in this document, informal employment – including forms of self-employment, such as own-account remunerative work – may be more central. Often, information about these forms of employment is lacking. As this report has repeatedly argued, it is difficult to assess the impact of different policies on informal and irregular employment due to a lack of comparable data over time. For example, debates on whether globalization has increased or decreased inequalities in employment earnings are frequently incomplete, since significant segments of the labour force are effectively excluded from the analysis. Therefore, 'employment' must be interpreted more broadly and inclusively.

***Taking into account both paid and unpaid work:*** The burden of unpaid, non-market, caring labour is unequally distributed. Women continue to perform the majority of this work. This traditional division of labour introduces constraints and restrictions that influence access to employment opportunities, reinforce patterns of labour force segmentation, circumscribe earnings potential, and, in certain circumstances, increase poverty risk. Moreover, pressures to increase household employment earnings through greater labour force participation among women may affect the supply of human resources available for non-market caring labour when male household members fail to make up the difference, with important implications for human development outcomes. Failure to take into account these dynamics could result in misinformed policy choices and a gender-biased employment strategy.

These three principles should inform the development of a coherent employment strategy for poverty reduction. However, they do not, by themselves, constitute a policy framework. Therefore, we examine in more detail three policy areas that correspond generally to the growth, employment and poverty reduction components described in the conceptual framework laid out in the beginning of this report. Although a comprehensive exposition of the intricacies of the various policy options is beyond the scope of this report, a common approach to developing an appropriate policy framework can be described. The three policy areas are: (1) establishing an employment-friendly macroeconomic environment; (2) cultivating employment-centred growth; and (3) making employment policy “pro-poor”.

### **6.1 Establishing an employment-friendly macroeconomic framework**

Standard macroeconomic stabilization programmes, such as those described in this report, pose two important problems: (1) the short-term objectives may impede long-run development targets, such as the creation of decent employment opportunities for men and women and (2) the policy objectives and instruments used for meeting those objectives are too narrow and limited in number and scope. For example, the typical inflation-reducing monetary and exchange rate regime emphasizes one intermediate objective – price stability – and one instrument – money market interventions to influence short-term interest rates.<sup>40</sup> Other intermediate objectives – for example, those relating to exchange rates or capital flows – are coordinated through liberalized markets. However, as argued in the previous section of this report, such policies often have negative effects on employment, in general, and women’s employment, in particular, due to high real short-term interest rates and over-valued exchange rates.

What is needed instead is a policy framework that allows for multiple policy instruments and multiple intermediate targets, all aimed at supporting long-run development objectives, such as explicit targets for employment. Consider the following three macroeconomic objectives:

- maintain a competitive real exchange rate;
- limit macroeconomic volatility due to unstable capital flows; and
- control inflation in a range consistent with long-run economic growth.

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<sup>40</sup> In reality, the practices of macroeconomic policy markets are more nuanced and the types of policy regimes more diverse. We present a stylized version of these macroeconomic regimes because they represent a dominant trend in macroeconomic policy-making and they are often the frameworks adopted in poverty-reduction strategy papers (PRSPs) and other government policy documents.

We can imagine three intermediate policy instruments for achieving these objectives:

- interventions in the foreign exchange market to influence exchange rates;
- capital controls and capital management techniques to reduce volatility; and
- interventions in money markets to balance inflation control with the promotion of economic growth.

This policy regime would be significantly more employment-friendly than the dominant macroeconomic model. It would address two central concerns of policy-makers: macroeconomic stability and inflation control. And, with multiple instruments available to macroeconomic authorities, the targets could be pursued simultaneously. Long-run objectives, including specific employment targets, could be incorporated into this framework and macroeconomic policies would be coordinated with other policy initiatives to attain these goals.

One of the arguments in support of the orthodox framework is that, in the context of free capital mobility, policymakers cannot simultaneously maintain a fixed exchange rate and pursue an independent monetary policy. This is frequently interpreted to mean that policies should not seek to intervene in both the money market and the foreign exchange market at the same time. However, there is no reason why these tools could not potentially be used together to pursue the types of intermediate objectives outlined above (Taylor, 2004). Policy makers have great deal of flexibility in the ways they manage the macroeconomic environment. This flexibility could be leveraged to support long-run objectives. A narrow focus on one primary objective and one instrument represents a missed opportunity.

Similarly, the rationale for uninhibited capital flows between countries has become questionable in the wake of the financial disasters of the 1990s and early 21<sup>st</sup> century (Palma, 2003). It is hard to maintain the claim that these crises represented an efficient, growth-enhancing distribution of resources (Gabel, 2003a). Prudent capital-management techniques, including well-design capital controls, can play an important role in maintaining macroeconomic stability (Epstein, Gabel and Jomo, 2003; Gabel, 2003b). Ironically, most “stabilization programmes” argue for just the opposite: liberalization of capital flows.

Why might these policies be particularly good for women’s employment? The evidence reviewed in the previous section suggests that women bear a disproportionate burden of the costs of adjustment to lower inflation rates in terms of foregone employment growth. An over-appreciated exchange rate can also discourage exports which, in many countries, may negatively impact employment opportunities for women – both formal and informal. In general, an employment-friendly environment that supports stable economic growth would reduce household resource constraints and, depending on intra-household distributive dynamics, could improve the welfare of women and children. This would come about by reducing or eliminating the negative costs of adjustment that women bear and that are associated with more austere economic policies.

However, a better macroeconomic policy regime is not sufficient for addressing gender inequalities. Macroeconomic policies can be powerful, but relatively crude, tools for influencing economic outcomes. In particular, a change in macroeconomic management is unlikely to address the structural issues of labour market segmentation, the distribution of asset ownership and the division of labour between market and non-market work that underpin many gender-based inequalities. It is also unclear that a macroeconomic environment that supports better economic performance will automatically improve the

employment opportunities available to men and women. For example, faster growth alone may not be sufficient for addressing the trend towards greater informalization (Heintz and Pollin, 2003). Therefore, we need to supplement changes to macroeconomic management with other interventions to achieve development outcomes, such as poverty reduction, growth with equity and decent work for all.

## **6.2 Cultivating employment-centred growth**

Strategies for developing the productive sectors of an economy must supplement the establishment of an employment-friendly macroeconomic environment. Purely market-based allocations of investment and productive resources often do not achieve core social objectives such as employment creation – as demonstrated by the “jobless growth” experiences or growing informalization witnessed in many countries. Instead, interventions led by government and non-state institutions will be instrumental in solving some of the allocation and coordination failures of markets (Chang, 2003, 1994). Therefore, a combination of market-based coordination and non-market interventions is necessary to achieve an employment-friendly growth path. Pro-active industrial, agricultural and trade policies must complement the development of a macroeconomic framework that maintains stability and supports long-run growth (Ocampo, 2005).

The precise set of policies for achieving these broad objectives must be case-sensitive and country-specific. Here we simply outline a number of strategic areas for intervention. One set of policies can be labelled “horizontal” strategies – in that these represent broad-based initiatives that are not targeted at specific sectors. These include public investment in creating and maintaining strategic economic infrastructure; the improvement of human resources through investments in skills-building and education; engaging in trade negotiations for reforms that support development objectives; and establishing institutions to support innovation and the diffusion of technological knowledge to formal, informal and agricultural activities. If appropriately designed, such measures will simultaneously improve productivity, enhance competitiveness, raise average earnings and improve employment opportunities.

“Vertical” strategies comprise a second set of policies – that is, interventions targeted at particular sectors, groups of firms, or economic activities. Vertical interventions can be used to encourage the growth of activities with high employment multipliers, to cultivate dynamic competitive advantage in strategic sectors, and to build the productive capacity that already exists. There can be a conflict between the structure of a county’s productive sector and the ability of the economy to generate new and better employment opportunities in a globally integrated context. Under these conditions, targeted interventions can facilitate the transformation of the productive sector in order to achieve long-run development objectives.

Vertical strategies for the productive sector must also take into account the nature of global production networks. In particular, strategies for capturing a higher share of the value produced along global supply chains can play a critical role in raising incomes and avoiding a low-earnings/low-productivity trap. For example, supply-side policies to support industrial up-grading are a viable means of raising export earnings. Industrial up-grading refers to the movement up in supply chains to capture a larger share of the total income generated throughout the production and distribution network (Gereffi 1999, Kaplinsky 1998). If producers in the lower reaches of supply chains share in the rents captured elsewhere, their average incomes will rise (Kaplinsky 1998).



Industrial and agricultural policies should not be restricted to the formal economy. Specific policy interventions are also necessary to address the consequences of growing informalization. This involves pursuing multiple strategies simultaneously: targeting structural changes in the production system that strengthen the relationship between growth and formal job creation; introducing directed programmes to raise the returns to labour (and productivity) of informal activities; and securing a strong social safety net to protect the most vulnerable workers (Carnegie Council, 2005).

Development finance institutions (DFIs) – such as development and agricultural banks – have been used by many countries to pursue productive sector strategies. In many countries, DFIs are underutilized as institutions that could support an employment-centred development strategy. Nevertheless, they have a potentially pivotal role to play in fostering a dynamic productive sector. DFIs are able to supply low-cost financial resources to priority sectors, to extend the capacity needed for risk management associated with innovative and dynamic investments, and to leverage resources needed for larger-scale projects that can take advantages of the economies of scale existing in the global marketplace. Often DFIs restrict their activities to the formal economy. However, DFIs can be designed to service the needs of informal operations as well.

The budget remains the central tool of government to pursue the objectives of productive sector development. The toolkit is varied: tax incentives, trade credits, appropriate subsidies, extension programmes, training and education, public investment, the provision of public goods, and research and development efforts. However, these tools will only be effective if adequately financed. Therefore, coordination between fiscal policies, budget prioritization and productive sector policies is essential.

Segmentation of labour markets and exclusion from employment opportunities must be taken into account when designing an integrated strategy for the productive sector. As has been stressed throughout this report, women's access to employment opportunities – especially decent formal wage employment – is frequently constrained, particularly in higher-paid occupational categories. The economic cost of limiting women's economic mobility can be high (Tzannatos, 1999). Therefore, the factors behind the sex segmentation of the labour force must be identified and addressed: for example, differences in educational attainment, access to finance, the distribution of assets, or employment/family conflicts.

As with agricultural and industrial policies, the budget can be an effective tool for addressing gender inequalities, including those relating to employment and the productive sector. However, budgets – on both the tax and expenditure sides – often contain gender biases. The practice of “gender budgeting” reveals the gender-specific impacts of tax policies and expenditure programmes, and can be used as a tool for addressing gender inequalities (Budlender, 2004; UNIFEM 2002). Specifically, productive sector policies can be coordinated with gender-aware budgeting in order to insure that the employment opportunities created are accessible to women. Moreover, industrial and agricultural policies can be crafted so as to improve employment in activities where women are disproportionately concentrated. Finally, budgetary priorities should support social policies that address constraints women face in terms of responsibility for unpaid care work.

Although the budget is a critical tool for realizing productive sector strategies and addressing gender inequalities in the labour market, the sustainability of fiscal policy must be taken seriously into consideration. Debt servicing obligations and weak tax collection systems

have constrained the developmental role the budget could play. As mentioned previously, trade liberalization has also contributed to the erosion of the revenue base of many developing countries. To be sustainable in the long-run, fiscal policies should promote income and productivity growth. Long-run stability requires that deficit financing and revenue targets be calibrated to changes in the productive potential of the economy over time. An alternative macroeconomic framework – such as the one outlined above – could enhance long-run sustainability by lowering interest rates and increasing economic growth. Once again – policy coordination is critical for transforming the productive sector to support better employment with improved gender equity.

### **6.3 Making employment “pro-poor”**

Ensuring that growth is employment-friendly will go a long way towards ensuring that it is also poverty-reducing. However, employment does not provide a guaranteed path out of poverty. As documented earlier, the estimated size of the global working poor population (based on the dollar-a-day standard) in 2004 was estimated 520 million people, or nearly a fifth of total world employment. Therefore, if growth must be made “pro-employment”, then employment must be made “pro-poor.” This report has tended to emphasize the demand-side of the problem – that is, focusing on the number of employment opportunities available. However, this represents only half of the story. As stressed earlier, labour mobility – and women’s mobility in particular – must be enhanced in order to allow workers from poor households to take advantage of opportunities as they become available.

For example, labour standards and social protections for working people can contribute to enhanced labour mobility if appropriately designed, implemented, and enforced. Labour standards have a role to play in setting minimum social protection and reducing social exclusion (and thereby raising mobility) by curtailing discriminatory practices, helping to manage the risks associated with global integration and workplace hazards, and enhancing productivity by building a foundation of trust and cooperation. Most importantly labour standards could play a role in setting a “social floor” in development for ensuring a minimum quality and standard for employment, or decent work. The development of appropriate labour market policies and institutions also contributes to the efficient function of markets, which will improve access to employment and increase competitiveness. There need not be a trade-off between efficient labour market institutions and effective social protection. In addition, social policies play a fundamental role in sustaining economic growth by directly contributing to the long-run development of a country’s human resources – through education, healthcare and support for the care of children.

However, labour standards and social protection measures must be crafted to take into account the current realities of the global employment situation. Individuals in informal employment mostly fall outside of the protective coverage of labour standards. If such social protection measures are to play a significant role in poverty reduction, this gap must be filled. In part, those engaged in informal employment are excluded by definition – they are informal precisely because they have not been incorporated into a formal legal and regulatory protective framework. However, the exclusion of informal workers may be a consequence of how labour standards and social protections have been designed. Many social protection measures – for example, minimum wage legislation – often presume a wage employment relationship. Such relationships may account for a minority of informal employment arrangements – own-account work or various forms of subcontracting arrangements often are more significant. Therefore, there is a need to re-think social protections and employment

standards in light of the diversity and changing patterns of employment relationships, particularly if such policies are to support poverty reduction.

If we are concerned about reducing the prevalence of income poverty among people engaged in remunerative employment, then we must find ways of improving upward mobility within a given type of productive activity – that is, increasing the returns to labour of the working poor. In particular, increasing the returns to labour of agricultural, informal and women workers will likely have a direct impact on the living standards of households most at risk.

This report has mentioned a number of constraints that keep earnings low. Removing these constraints through direct policy interventions should raise the returns to labour. Three key constraints are: (1) basic infrastructure and appropriate economic services; (2) access to markets; and (3) access to finance and capital assets.

Inadequate infrastructure constrains productivity in agricultural and informal activities, reducing the earnings potential of workers engaged in these forms of employment. Poor infrastructure can also raise demands on the amount of unpaid work that women perform – for example, women often must carry water long distances when they do not have access to taps closer to where they live. Increasing the burden of unpaid work increases the risk of poverty and reduces access to employment opportunities. The precise types of infrastructure needed will vary depending on the context. For example, street vendors may have very different requirements from home-based garment workers. Therefore, the public sector should undertake a needs assessment for employment-centred infrastructure projects for poverty reduction.

The working poor often face demand-side constraints as well. For example, smallholder farms may have no incentive to increase production if they cannot sell the surplus produced. This limits the potential returns to labour for these workers. Policies to increase market access may involve interventions at the macro, institutional and micro levels. Appropriate macroeconomic policies are necessary to insure adequate domestic demand and competitiveness in external markets. Development-centred trade negotiations are critical to give low-income countries greater access to world markets. At the institutional level, provision of basic transport, storage and marketing facilities can remove demand constraints. At the micro level, governments can offer market facilitation and extension services to bring buyers and sellers together and to improve the quality of products.

A lack of access to assets limits the range of livelihood strategies that households can pursue and thereby increases the risk of poverty (Rakodi, 1999). Women are often disadvantaged in terms of asset holdings. For example, in Latin America, patterns of inheritance and gender-biased government programmes of land distribution mean that many more men than women have title to land (Deere and Leon, 2004). Unequal distribution of assets also has important implications for access to financial services, since banks are often unwilling to lend to individuals without asset-based collateral. Therefore, programmes to build assets – at the individual, household and community level – are important components of the overall policy framework. As part of this process, financial sector reforms may be needed to insure that small-scale producers and informal operators have access to basic financial services.

The ways in which production is organized could also be transformed in order to raise returns to labour by increasing the “terms of trade” that workers enjoy. As has been discussed earlier, small, individual producers often receive only a fraction of the value produced along supply chains. Cooperative organizations – in which producers come together – can begin to change this dynamic (ILO, 2003). By pooling resources, workers in cooperatives can buy inputs on more favourable terms, increase market access, and raise the revenues they receive. Moreover, cooperatives can relax constraints that individual producers may face in terms of access to credit or economic services. There are numerous examples of informal women workers organizing to improve employment conditions and well-being (Chen, *et al.*, 2005).

Social policies are frequently seen as distinct from employment-centred approaches within a poverty reduction policy framework. For example, in many poverty reduction strategy papers (PRSPs) policies for the ‘social sector’ and policies for the ‘productive sector’ are seen as separate sets of interventions. This divide is artificial, particularly if one develops employment policies that incorporate a gender perspective. Social policies on the supply side are necessary for the long-run success of an employment-centred development strategy. In particular, public investments in education, skills-building and health services are essential for bolstering productivity and employment incomes.

Unpaid caring labour accounts for a large fraction of the total labour necessary to maintain and reproduce a country’s human resources. Without this investment in human resources, a country’s growth and development potential would be severely compromised. Social policy interventions must explicitly consider the importance of unpaid work and support the provision of care through appropriately designed policies. Numerous examples exist and such policies could include cash transfer programmes, subsidized childcare and public employment schemes aimed at supporting non-market work. Although social policies should support the provision of caring labour, they must do so in a way that does not reinforce existing gender inequalities.

Social policies that support unpaid care work could also be instrumental in relaxing or removing some of the obstacles to labour market participation and mobility that women face. Women would then have a broader range of choices in terms of the employment opportunities open to them. Addressing these constraints to employment and income opportunities is essential, if women are to benefit from an alternative policy framework that stresses employment for poverty reduction.

#### **6.4 Summary**

This section of the report has laid out a number of suggestions for how an alternative policy framework could be developed – one that supports employment and accelerates poverty reduction. In doing so, it draws on the conceptual framework presented at the beginning of the report, which explores the growth-employment-poverty nexus from a gender perspective. The exact mix of policies will vary from country to country. Moreover, how established gender dynamics will interact with the proposed alternatives will be context-specific. There is no “one size fits all” approach. Instead, different combinations of alternative policies will be relevant in different circumstances. Nevertheless, this section has attempted to present how policy alternatives could be developed from the critical analysis presented here.

## 7. Conclusions

The current global employment situation poses enormous challenges to achieving sustainable poverty reduction, growth with equity and decent work for all. Slower growth and a declining labour intensity of productive activity contribute to a situation in which the generation of employment opportunities, particularly quality (or “decent”) employment opportunities, lags behind the growth of the world’s labour force. The manifestations of these trends are various: increased open unemployment, growing informalization, widespread casualization, crowding in subsistence activities and marginalization in low-productivity employment. As has been argued in this report, employment is perhaps the most important channel through which growth can translate into poverty reduction and less income inequality. Therefore, the challenges confronting the global employment situation have far-reaching implications.

This report has documented these trends, with a particular emphasis on gender dynamics. Women’s employment is central to the story. As has been stressed repeatedly, altering the quantity and composition of women’s labour has become a primary strategy through which households cope with the fundamental economic changes that the past decades of global integration and shifting economic policies have ushered in. However, participation in the paid labour force has important costs for women, as well as benefits and equal opportunity remains an unrealized goal, ten years after the UN World Conference on Women, 1995 held in Beijing. This report has made clear that these gender dynamics have a direct impact on how well our economies perform, who gets what jobs and our chances of success in eliminating the worst forms of economic deprivation.

The findings of this report suggest that the dominant policy regime will have to change if the problems discussed here are to be addressed. The current policy framework stresses macroeconomic stability, freer markets, a smaller role for the public sector and uninhibited international flows of capital and goods, but not extending the same privilege to labour. At best, these policies are insufficient to tackle the global employment challenge. At worst, they have contributed to the erosion of employment opportunities and the quality of working life. Fortunately, alternatives exist for the responsible management of economies in a globally integrated context, alternatives that secure economic stability without sacrificing the welfare of working people or entrenching existing gender inequalities. This report has outlined, in broad terms, the elements of such a framework. The more difficult challenge is to marshal the political will to create the policy space necessary to move the global economy onto a development trajectory that supports sustainable poverty reduction, gender equity and decent work for all.



## Appendix

This appendix describes, in more detail, the data and techniques used to generate the econometric estimates presented in Tables 10-12. The estimates were based on an unbalanced panel covering 16 low- and middle-income countries over the years 1970 to 2003. The countries included were Barbados, Chile, Colombia, Costa Rica, India, Jamaica, Kenya, Malawi, Malaysia, Mauritius, Panama, Philippines, South Korea, Sri Lanka, Thailand and Trinidad and Tobago. Data on employment, disaggregated by sex, were taken from the ILO's on-line database, LABORSTA (laborsta.ilo.org). Data for the policy and economic variables were taken from the *World Development Indicators 2005* CD-ROM (Washington, DC: World Bank) and the *International Financial Statistics* (October 2005) (Washington, DC: International Monetary Fund).

For the estimates of the determinants of total employment, we began with the following econometric model:

$$(1) E_{i,t} = \mathbf{a} + \mathbf{g}E_{i,t-1} + \mathbf{b}_1 y_{i,t} + \mathbf{b}_2 g_{i,t} + \mathbf{b}_3 x_{i,t} + \mathbf{b}_4 m_{i,t} + \mathbf{b}_5 r_{i,t} + \mathbf{e}_{i,t}$$

in which  $E_{i,t}$  is total employment for country 'i' in year 't',  $y_{i,t}$  represents real GDP,  $g_{i,t}$  – current government expenditures as a per cent of GDP,  $x_{i,t}$  – exports as a per cent of GDP,  $m_{i,t}$  – imports as a per cent of GDP,  $r_{i,t}$  – the real short term interest rate and  $e_{i,t}$  is a stochastic error term. For estimation purposes, all variables were expressed in natural logarithms with the exception of the real interest rate, which takes on negative values and, therefore, the natural logarithm may be undefined.

For the estimates of the determinants of women's employment, we used the following basic model:

$$(2) F_{i,t} = \mathbf{a} + \mathbf{g}F_{i,t-1} + \mathbf{b}_1 M_{i,t} + \mathbf{b}_2 y_{i,t} + \mathbf{b}_3 g_{i,t} + \mathbf{b}_4 x_{i,t} + \mathbf{b}_5 m_{i,t} + \mathbf{b}_6 r_{i,t} + \mathbf{e}_{i,t}$$

The variables are defined as in Equation (1), with  $F_{i,t}$  representing women's employment and  $M_{i,t}$  representing men's employment. A parallel structure was used for the estimates of men's employment:

$$(3) M_{i,t} = \mathbf{a} + \mathbf{g}M_{i,t-1} + \mathbf{b}_1 F_{i,t} + \mathbf{b}_2 y_{i,t} + \mathbf{b}_3 g_{i,t} + \mathbf{b}_4 x_{i,t} + \mathbf{b}_5 m_{i,t} + \mathbf{b}_6 r_{i,t} + \mathbf{e}_{i,t}$$

Macroeconomic time series data are frequently non-stationary – that is, they possess a unit root and the means of the series change over time. This violates the assumptions of ordinary least-squares estimation procedures and may lead to spurious conclusions. Therefore, it is critical to test all the variables used in the above models for unit roots. Table A1 presents the results of unit root tests for panel data, using the Im, Pesaran and Shin (IPS) procedure. The IPS technique allows for individual unit root processes for each of the countries included in the panel. The null hypothesis is that a unit root exists. Therefore, we must reject the null hypothesis if the variable is to be treated as stationary.

*Table A1.*  
*Critical Values of Panel Unit Root Tests, Im, Pesaran*  
*and Shin technique (p-values in parentheses)*

<b>Variable</b>	<b>Levels</b>	<b>First Differences</b>
$E_{i,t}$	0.79 (0.78)	-15.44 (<0.01)
$y_{i,t}$	1.86 (0.97)	-10.45 (<0.01)
$g_{i,t}$	-1.09 (0.14)	-13.11 (<0.01)
$x_{i,t}$	-0.12 (0.45)	-14.75 (<0.01)
$m_{i,t}$	-0.67 (0.25)	-15.54 (<0.01)
$r_{i,t}$	-7.79 (<0.01)	n/a
$F_{i,t}$	2.58 (0.99)	-19.07 (<0.01)
$M_{i,t}$	1.54 (0.94)	-11.78 (<0.01)

*All variables except  $r_{i,t}$  expressed as natural logarithms.*

All of the variables, expressed in their original levels, are non-stationary, with the single exception of the real interest rate. Non-stationary variables can frequently be made stationary by taking first differences. Table A1 also presents the results of the panel unit root test for the first differences of the non-stationary variables. In all cases, the unit roots vanish when expressed as first differences.

Because of the problem of non-stationarity, Equations (1), (2) and (3) are transformed and all variables are expressed in first differences. A fixed effects estimation procedure was used to control for unobserved country-specific effects. However, the inclusion of a lagged dependent variable on the right-hand side of the models introduces problems of endogeneity. Therefore, the Arellano-Bond General Method of Moments (GMM) estimation procedure for dynamic panels is used in all cases. The values of the dependent variable, lagged 2 to 4 periods, were used as instruments. In addition, potential problems of endogeneity exist with respect to the independent variables as well. Issues of endogeneity are perhaps most serious with respect to the estimates of the determinants of men's and women's employment (since changes in women's employment may affect men's employment and vice versa). Therefore, one period lagged values of the independent variables are therefore also used as instruments in the estimation procedure. The lagged values of the independent variables are assumed to be predetermined and, therefore, exogenous for estimation purposes.

There are two versions of the Arellano-Bond estimation technique – the one-step procedure and the two-step (iterative) procedure. The two-step procedure may be more efficient than the one-step procedure. However, the standard errors generated by the two-step procedure may not be reliable. Therefore, statistical inference based on the two-step estimates could be questionable. In Tables 11 and 12 of the main text, the coefficient estimates from the iterative two-step procedure are presented, but the p-values for both the 1-step and 2-step techniques are included, due to the possible problems associated with the iterative technique.



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