

**Promoting Gender Equality through Labor Standards and Living Wages:
An Exploration of the Issues**

Stephanie Seguino
University of Vermont
Department of Economics
Old Mill 338
Burlington, VT 05405

Email sseguino@zoo.uvm.edu

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I. Introduction

One very cold February morning, some years ago, I was in line at a small airport in Maine to check in for a flight to Haiti, where I had been working. Oddly enough, the person in front of me held a box addressed to someone in Port-au-Prince, and I inquired as to whether he knew someone there. He replied, “No, the box is mine. I am a manager for Stride Rite (a footwear manufacturer). We closed up in Newport on Friday and will open up a new factory in Port-au-Prince on Monday.” Newport is a town about 30 miles away that had, in its hey day, been host to several shoe factories, one of which my father had worked in some years before.

Wages in Maine for “hand sewers” in shoe factories had not been terribly high, but they were substantially higher than in Port-au-Prince—where workers were paid on the order of 50 cents a day. The newly employed Stride Rite workers in Haiti, as they had been in Maine, would be predominantly women. The story of these Haitian women has been told numerous times. Work conditions were and still are harsh in those firms that have stayed, and workers lack the bargaining power to raise their wages—or even to convince management to provide clean drinking water and toilets. If workers push too hard for change, such firms could, after all, flee at a moment’s notice to other low wages sites, just as they had moved from Newport to Port-au-Prince.

While gender relations are complex in Afro-Caribbean societies, it is perhaps not an overgeneralization to say that the women who worked in these factories not only sought to provide for their children, but also to achieve a degree of autonomy from what were often oppressive, choiceless marital relationships. In Haiti, poverty is such a deep and powerful oppressor that it might seem misplaced to point to unequal gender relations as a source of oppression. But for women who had the primary responsibility for providing for children, gender inequality could hamper efforts to care for children. Without some control over outside income, women lacked the bargaining power or wherewithal to ensure that resources be directed toward children.

How could labor standards improve the ability of these women to achieve their goals of provisioning for children and for expansion of their ability to make life choices? The implementation of labor standards and living wages has the potential to help reduce gender inequality in part through the effect on gender wage inequality. Closing gender wage gaps can attenuate women’s unequal bargaining power in the household by improving women’s fallback position. This power shift could result in negotiation for a more fair distribution of unpaid labor between the adult women and men in the household, and can also lead to a more equitable distribution of household resources between females and males in the family. With more equity at the household level, women’s opportunities to participate in paid labor might also expand.

Given the importance of gender wage inequality in perpetuating gender inequality in other arenas, my comments focus on the potential for labor standards that promote the payment of living wages to improve women's well-being absolutely and relative to men. This discussion addresses primarily conditions in semi-industrialized economies, although some of the relationships between wages, closure of the wage gap, and macroeconomic outcomes may be applicable to economies with other types of economic structures.

II. Stylized Facts of Globalization and Gender Inequality in Semi-Industrialized Economies

Efforts to improve labor standards and promote living wages, to be successful, must take into account and overcome constraints imposed by the process of globalization. One of these constraints is the increased ability of firms to respond to higher costs and more regulation (or the threat of these) by shifting production to countries with less regulation, lower costs, and in general, higher potential profits. With regard to labor demand, as firms become more mobile across borders, they gain access to "substitutes" for domestic labor, and as a result, their demand for labor becomes more elastic. Except at high skill levels, labor has not become equally as mobile. Thus labor's options have not expanded and, abstractly speaking, labor supply schedules have not become steeper as labor demand schedules have flattened. The result of this asymmetry is an increase in capital's bargaining power vis-à-vis workers, both on the front of wages as well as other components of work conditions.

Capital's increased bargaining power has potentially differential effects by gender. This result can be traced to the practice of job segregation, with women in semi-industrialized economies typically concentrated in "mobile" industries and men in "immobile" or non-tradable industries.¹ "Mobile" industries can be described as those for which sunk costs, including training costs, are limited and there is easy firm entrance and exit. Mobile industries tend to be labor-intensive manufacturing firms as well as services, such as financial services and possibly tourism. Women are the preferred labor force in those industries. This is explained by women's lower wages and purportedly more limited resistance to poor working conditions, which enhance firm profits.² Thus, facilitated by trade and investment liberalization, the demand for female labor in mobile industries has risen.³ Guy Standing (1989) calls this process "global feminization,"

¹ This phenomenon may not hold in countries of differing economic structures. For example, in the U.S., in more recent years, men have held the largest share of jobs in durable goods manufacturing industries, where job losses have been high, as firms have relocated to lower wage sites.

² For data on women's concentration in export production, see, for example, Standing (1989, 1999), UNDP (1999), and, for a set of semi-industrialized economies, Seguino (2000b). On services see, for example, Freeman (2000).

³ I refer here to the "global" phenomenon, since in some countries, the demand for female labor in labor-intensive industries has fallen, either due to technological upgrading, or because firms have relocated to lower wage sites. This process can be observed in the U.S. and Europe, as well as some of the East Asian economies, such as Taiwan and Hong Kong (Kucera and Milberg 2000; Berik 2000).

arguing that the trends of globalization have made the “cost cutting strategy” to profit maximization paramount.

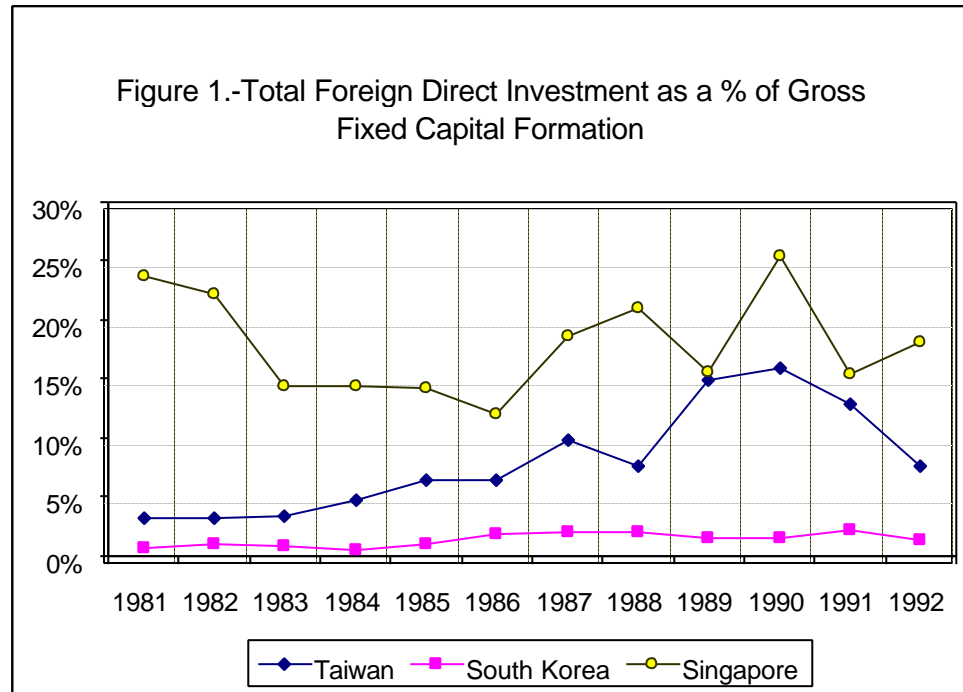
Men, on the other hand, tend to be concentrated in non-tradable industries and capital-intensive industries, even if these latter produce for export. In the case of non-tradables, the price elasticity of demand for such goods tends to be low, and higher wage costs can be passed on to consumers. Further, in more capital-intensive industries, higher wages for men may reduce turnover, protecting the firm’s investment in training. Industry structure and the price elasticity of product demand, thus, ratify relatively higher male wages.

These stylized facts help to explain the perpetuation of gender wage inequality in a global economic environment that otherwise might promote a closure of the gender wage gap, as the demand for female labor rises relatively faster than for male labor. Because women are located in “mobile” industries in which the threat effect of firm relocation to lower wage sites is credible, women’s bargaining power relative to that of capital does not rise, even as labor demand increases.⁴ In contrast, workers in immobile industries have more bargaining power to demand higher wages and better working conditions. Downward pressure on the wages of workers in mobile industries (in this case, women) can spill over into other sectors of the economy, insofar as jobs are gendered and men and women are not perceived to be substitutes. Thus low wages for women in mobile manufacturing firms serve to hold down female wages in non-tradable industries, such as retail sales, as well as social and community services. Men’s wages are not similarly constrained.

One possible outcome of this process is growing wage inequality. Indeed, the polarization of wages in recent years is a well-documented phenomenon, although the role of gender in this process has received less attention. With regard to gender, assuming these stylized facts hold, we can hypothesize that as capital mobility increases, gender wage inequality worsens, even as trade expands and growth continues. There is some evidence of this in the case of Taiwan as compared to South Korea (Seguino 2000a). During the period 1981-92, Taiwan liberalized rules on inward and outward foreign direct investment (FDI). South Korea, by comparison, did not substantially alter rules on FDI during this time. Figure 1 attempts to capture these trends, using the sum of inward and outward foreign direct investment, or total FDI, as a share of gross fixed capital formation. This measure can be considered a proxy for physical capital mobility, i.e., the facility with which firms can relocate production in response to cost (or regulatory) pressures. That figure also includes data on Singapore for comparative purposes.

⁴ Bhattacharya and Rahman (1999) have provided implicit evidence of this in the case of Bangladesh’s female-dominated garment industry. The demand for female labor has increased sharply in recent years. Despite that, female wages in that sector have not kept pace with rising productivity, so that the wage share of income has fallen—women workers are worse off relative to capitalists. The “mobility” of garment firms is a likely explanation for the power differential that has led to this outcome, in addition to other social and economic constraints on women’s bargaining power.

Interestingly, over the period 1981-1992, gender wage differentials in South Korea narrowed, while in Taiwan, they widened. One of the factors that explain this divergent outcome is the increase in physical capital mobility in Taiwan, as compared to South Korea. The interpretation of these results is that women's bargaining power vis-à-vis capital decreased in Taiwan as female-dominated firms became more mobile, contributing to a widening gender wage gap. In fact, female wages fell from roughly 68% of average male wages in 1981 to 62% in 1992. In contrast, gender wage differentials improved slightly in South Korea over this period.



The inverse relationship between capital mobility and wages, coupled with gendered job segregation, suggests that higher female wages in semi-industrialized economies might result in reduced output and growth, and thus declining employment, particularly for women. There is thus potentially an inverse relationship between gender equity, facilitated by higher relative female wages, on the one hand, and growth of output on the other. Empirical analyses are consistent with this, and one study (Seguino 2000b) indicates that, among a set of semi-industrialized economies, those with the greatest gender inequality (measured as gender wage gaps) grew the most rapidly during the period 1975-95.

Higher relative female wages, then, appear to slow growth, at least for this set of countries, for two important reasons: 1) investment responds negatively to increases in female wages, and 2) exports fall as export prices rise, reducing the ability of an economy to import capital goods, thereby slowing productivity growth.

These results suggest that the enactment of higher minimum wages might lead to outward FDI as well as a decline in exports of labor-intensive goods. The result would be employment losses for women, negating the beneficial effects of higher minimum wages. That is, the women who do not lose their jobs have higher wages, but the share of the wage bill going to women decreases as female employment falls. Naila Kabeer (2000) argues that this is the likely outcome if Northern-inspired labor standards that drive up wages in developing economies are linked to trade with developed economies. In particular, she argues that job losses in the global South will result, with the women in developing economies worse off, not better off. She further suggests that the motivation for the imposition of labor standards, including living wages, is motivated by protectionist desires of Northern workers.

III. The Potential for Living Wages to Reduce Gender Wage Equality

Efforts to eradicate poverty and to ensure a basic minimum wage standard are likely to differentially impact women, who tend to be concentrated in the lowest wage industries, and who have the least bargaining power to improve their wages. That said, the stylized facts described in the previous section underscore the difficulties individual governments would face in trying to close gender wage gaps by imposing a wage floor, calculated as a living wage, even if they were willing to do so.

While there are constraints on efforts to improve the living standards of low-wage workers by raising wages, there is also some evidence of room to maneuver in achieving this policy goal. I would like to focus the remainder of this paper on other possible outcomes resulting from wage increases. Before I do that, it might be useful to summarize some of the findings of a two-sector model of a semi-industrialized economy, specifically developed to consider the macroeconomic impact of using policy to narrow gender wage gaps (Blecker and Seguino 2002). The comparative statics of this model shed some light on the factors that mediate between female wages and employment in a semi-industrialized economy.

In this model, women workers are segregated into the export-manufacturing sector while men are employed in the non-tradables or “home” goods sector. We evaluated short-run outcomes, assuming an exogenously-induced increase in the female wage, holding male wages constant. Comparative static effects of raising the female wage operate through three channels:

1. a relative price effect—the export price relative to the price of the “home” good rises, and there is a real appreciation of the exchange rate;
2. a gender redistribution effect—the female wage rises relative to the male wage, and the male real wage falls; and
3. a class redistribution effect—the price-cost margin is squeezed by higher wages in the export sector, reducing the profit share from that sector, seen below in the equation for the price of the export good

$$P_X = f(w_f a_X + e P_n^* n_X), \quad f > 1,$$

where P_X is the price of the export good; f is the price-cost margin (equal to one plus the mark-up rate); w_f represents female nominal wages, a_X is the labor coefficient in sector X ; n_X is the intermediate input coefficient; P_n^* is the world price of intermediate inputs; and e is the nominal exchange rate. Further, f is a positive function of the real exchange rate. Higher domestic prices, resulting from an increase in female wages, cause the currency to appreciate, creating a “profit squeeze” that forces firms to lower their price-cost margin in order to maintain competitiveness.

The effects that operate through these three channels depend on the value of various parameters in the model. In particular, the price elasticity of export demand will influence the effect of higher female wages on export demand; the “footlooseness” of capital will determine the extent to which higher female wages that squeeze profits also depress investment (as a result of physical capital flight or outward FDI); the difference in the propensity of consume out of wage and profit income will influence the effect of higher female wages on demand for both the export good and the “home” good.

Higher female wages that lead to a decline in output and female employment—the pessimistic case—is likely to occur if capital is footloose, if the price elasticity of exports is high, and if the spending propensities of workers and capitalists are similar. The first two conditions are likely to obtain in countries in the early stages of industrialization, and in that regard, the fears of Naila Kabeer and others appear well founded.⁵

The more optimistic scenario—in which higher female wages result in little loss of export demand, little if any reduction in investment, and a boost to consumer demand, as income is shifted from those with a high propensity to save (capitalists) to these with a low propensity to save (female workers)—is likely to be possible only in those cases where capital is immobile (i.e., FDI faces restrictions) and where export goods are price inelastic, either because they are skill-intensive, or because they are goods for which quality matters (or both). One can think of relatively few countries that fall into this category, but an important and instructive example is South Korea, a case that is discussed in greater detail below. Nevertheless, under some, albeit restrictive, conditions, higher female wages are consistent with increases in employment and output.

An important feature of this model is the assumption that there is no link between wages and productivity. There may, however, be a link between wages and productivity growth, and if strong enough, higher wages could not only improve the well-being of workers, but also stimulate the growth of output and employment. The next section

⁵ Gibson and van Seventer (2000) point out, based on dynamic CGE simulations of the South African economy, that the effects of real wage increases on employment also depend on the macro policy environment. When there is monetary “policy dominance,” efforts to raise wages can be frustrated by monetary authorities that respond to inflation (induced by higher wages) by raising interest rates, and thus engineering a contraction and a decline in employment. This is a point worth considering further in trying to anticipate the effects of enactment of labor standards and living wages.

discusses this possibility in more detail, with particular reference to the case of South Korea.

A second important feature of the model is the assumption that while female wages rise in country A, they are constant in competitor countries so that the real exchange rate appreciates in country A. The application of labor standards and living wage rules, however, implies the possibility of a simultaneous increase in female wages that may leave relative export prices among competitor countries unchanged, e.g., the relative price of garments produced in Bangladesh, say, and Thailand, remains unchanged. The effects of this policy shift will be quite different than if wage increases occur only in country A. I know of no research that examines the effects of a simultaneous wage increase among countries that are export competitors, but I will sketch what I think to be some important implications of such a strategy.

First, insofar as wages rise in alternative production sites, there is little profit incentive for “footloose” capital to shift investment abroad. Thus the “profitability” effect of investment induced by higher wages on domestic economies may be small. Second, because the price of “substitutes” of export goods rises also, then the negative demand-side effect on exports will be smaller, although presumably this will still be negative. Together, these two possibilities suggest that, if enacted simultaneously amongst competitor countries, living wage effects on employment may not be negative or only mildly so.

Each of these assumptions noted above presupposes coordinated exchange rate adjustments between competitor countries that have experienced wage increases, so that real exchange rates remain unchanged. That is, a country’s exchange rate policy is assumed to confer no particular price advantage that would offset the effects of a wage increase more than in competitor countries. Real exchange rates remain unchanged. That is a big assumption, and suggests that any effort to implement living wages would also have to consider coordination of exchange rate policies among countries as well.

IV. Efficiency Wages, Gender Equity, AND Growth: What are the Chances?

Higher wages for workers in labor-intensive manufacturing industries could stimulate productivity growth, thereby neutralizing the effects of wage increases on unit labor costs and prices. The research on efficiency wage effects in labor-intensive manufacturing industries, however, is scarce. This may be because we don’t often see firms in these industries using higher wages as a way to promote increased productivity or quality improvements. In part, this may be because the firms don’t have to use wages as a tool to stimulate labor effort. Monitoring is easy; rapid turnover is not costly because of low levels of investment in training and worker skills; and the target labor force is relatively powerless—women have few job alternatives. Thus, firm strategy often involves a stick, rather than a carrot.

Further, if firms can rely on low wages to achieve a cost advantage, they feel less pressure to raise productivity. Indeed, this might be described as a low-wage, low

productivity trap where wages that are too low slow improvements in productivity, output, and thus living conditions. In contrast, externally-induced wage increases (via government policy or labor organizing) might, under the right conditions, spur firms to become more productive, to innovate, to adopt more sophisticated technology—all of which serve to attenuate the negative effect of higher wages on product price and therefore demand. Further, higher wages might induce improvements in product quality, again offsetting negative effects of wage increases in demand.

What are the “right” conditions under which externally-induced wage increases could induce productivity growth and quality improvements? While there may be several important conditions, of primary concern is the extent to which firms are “footloose,” that is, the degree of physical capital mobility. If firms have few alternatives to domestic labor as wages rise, that is, if they are not easily able to relocate to lower wage sites, then they are disciplined by the higher wages. The effects of this discipline might take the form of increased corporate initiative to innovate and to improve productivity. They may take the form of more energetic efforts to market goods, or to reorient the product to niche markets where quality matters more and price less. Or simply, firms that are immobile may observe improvements in productivity and quality as labor effort increases in response to the wage incentive. The limitations on capital mobility force firms to stay around long enough to observe the productivity increases that would otherwise not have become apparent, had the firm relocated to lower wage sites.

The case of South Korea is instructive. During the period, 1975 to 1990, a time of limited inward and outward FDI, real wages more than quintupled in the manufacturing sector. There is evidence that real wage increases led rather than lagged growth, spurring labor productivity and firm efforts to innovate (Seguino 1999-2000). This period then appears to have been one of wage-led growth, with rising wages stimulating firms to invest in order to overcome the potentially negative effect of higher wages on export demand. In a sense, firms were squeezed by higher wages, and to regain prior profit levels, were stimulated to invest as a way to raise productivity.

An interesting feature of this period is that wages and productivity rose rapidly in female- as well as male-dominated industries. This is surprising, since it is often argued that wages are unlikely to produce significant increases in productivity in labor-intensive industries as compared to capital-intensive industries. The reasons advanced are that these industries simply do not lend themselves to greater mechanization, and most productivity gains resulting from process innovation have probably already occurred. The data from South Korea, however, suggest that wage increases stimulated productivity growth, even in labor-intensive female-dominated industries. The data in Table 1 are indices of labor productivity in selected female- and male-dominated manufacturing industries during the period 1976-1990. Note that productivity gains in female industries are similar to or exceed those in male industries.

Table 1.- Indices of Labor Productivity in Selected South Korean Manufacturing Industries, 1976 to 1990

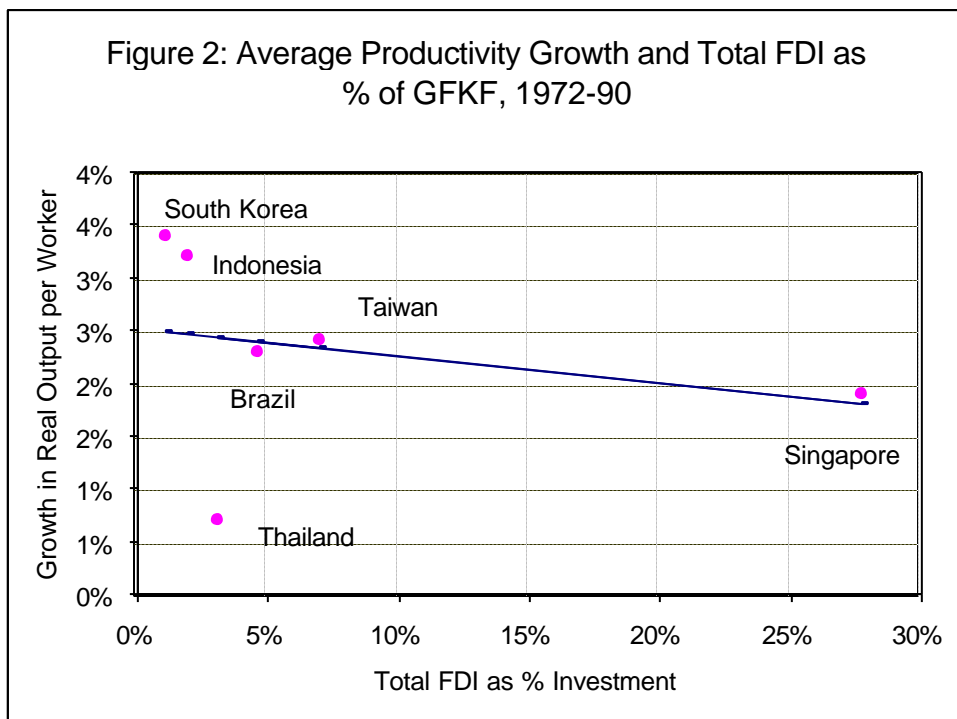
Industries	1976	1990
Female-Dominated		
Wearing apparel	100	481
Footwear	100	562
Electronics	100	808
Male-Dominated		
Iron and Steel	100	483
Machinery	100	592
Transport	100	317

Source: Korean Productivity Center.

The case of South Korea suggests that living wage standards that raise the wages of female manufacturing workers can stimulate productivity growth, either through increases in labor effort or because firms are prodded to become more efficient, and perhaps to increase investment in more sophisticated technology.

This result is less likely to occur in an environment of footloose capital, it would seem, since firms can bargain down wages, using low wages as a cost advantage in lieu of productivity-enhancing investments. If that is the case, we would expect to see slower productivity growth, not more rapid, in countries for which physical capital mobility is high. That is, investment liberalization, because it reduces worker bargaining power and thereby depresses wages, can lead to slower productivity growth. In short, investment liberalization can make firms “lazy” in pushing for cost advantage via efficiency gains. The preliminary data presented in Figure 2 are consistent with this hypothesis, and show that those countries with the least physical capital mobility (total FDI as a share of investment) have had the most rapid productivity growth in recent years.

This relationship between physical capital mobility, gender wage gaps, and productivity requires further investigation. If it does hold up to more sophisticated empirical scrutiny, it suggests that global labor standards, which essentially act as a constraint on capital mobility by reducing the incentive for firms to run from higher wages, may also induce higher rates of productivity growth.



V. Conclusion

I have outlined what I believe to be some of the important macroeconomic issues related to enacting living wage standards on a global scale as this relates to gender wage equality. These comments refer particularly to semi-industrialized economies. The results may differ for economies of differing economic structures.

While there is evidence that low wages for women relative to men, in the context of job segregation with women concentrated in export industries, are a stimulus to growth, this does not preclude more optimistic scenarios. The evidence on efficiency wage effects suggests that higher female wages that approach living wages can be consistent with economic growth by providing a stimulus for firms to innovate. The potential negative effects of higher wages on investment, when adopted in an individual country, can be lessened if implemented as a global labor standard.

The potential for this outcome to occur, however, could usefully be explored through additional research. Two areas of investigation seem particularly relevant. The first is the relationship between higher wages and productivity growth in labor-intensive industries. South Korea provides some evidence of the possibility for higher wages to stimulate productivity, and further evidence as to the strength of this relationship and the institutional context necessary for it to occur would be useful.

For example, one reason why firms may have been able to respond to the wage-push stimulus in South Korea is that they possessed the internal resources, as large

conglomerates, to purchase new technologies and to implement new processes that raise productivity. Smaller firms may not be similarly equipped. Rama (2000) found, for instance, that when Indonesia doubled the real minimum wage in the early 1990s, productivity and employment rose in large manufacturing firms, but not in small firms. In fact, workers in small firms experienced substantial job losses as a result of the minimum wage hike. Why was this so? It may very well have been due to the technical and resource constraints small firms experience in attempting to raise productivity. Thus a related research question is to explore the effect of higher wages on firm-level productivity by firm size. This is a particularly important issue as regards the enactment of living wages and gender equity, since women workers tend to be more concentrated in small firms with informal work arrangements than men.

Second, the exchange rate effects of global labor standards and living wages should be investigated. Even if higher wages are simultaneously adopted, relative prices amongst competitor countries may differ as a result, if exchange rate policies are not coordinated.

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