

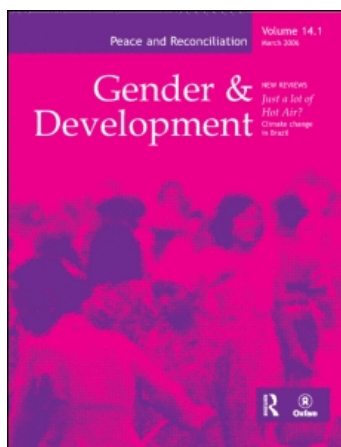
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# The global economic crisis, its gender and ethnic implications, and policy responses

Stephanie Seguino

*The global financial crisis that began in 2008 has resulted in the widespread destruction of jobs and livelihoods. Among the factors that precipitated the crisis, growing inequality both within and between countries contributed to low levels of aggregate demand and the reliance of low-income households on unsustainable borrowing to maintain living standards. The crisis provides the opportunity to rethink macroeconomic policy, and for feminist economists to advance proposals that promote jobs, economic security, and equality by class, gender, and ethnicity. Reviving the global economy will require policies that focus heavily on job creation, putting money into the hands of low- and middle-income households.*

*Key words:* jobs; inequality; gender; ethnicity; global financial crisis

## Introduction

The global economic crisis now underway has two key aspects that policymakers and governments must address. The first is the problem of a credit freeze, which has led to a virtual halt in lending for investment and consumption. The second is the dramatic decline in aggregate demand (that is, the sum of government, business and household spending), leading to extensive destruction of jobs and livelihoods.

This paper focuses primarily on the problems on the demand side of the economy – the sharp drop in spending by businesses and households that has led to massive layoffs, first in developed and then in developing economies, further exacerbating the crisis. I also examine the gender and ethnic dimensions of these demand-side problems, and discuss policy responses that can promote rising living standards and economic growth with greater equality.

## The hidden cause of the crisis: rising global inequality, and insufficient demand

A central feature of the global economic crisis that erupted in 2008, and therefore key to its long-term resolution, is the growth of inequality within and between countries.

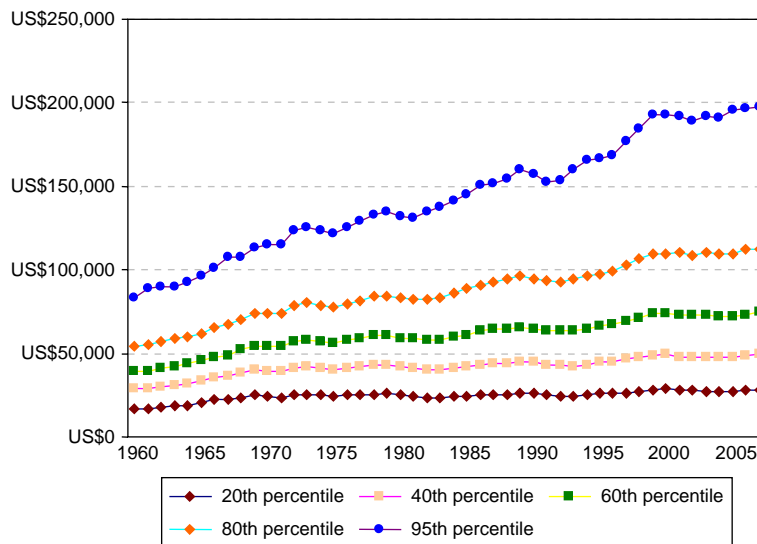
Among the numerous measures of inequality, one of the most straightforward is the ratio of income of the richest 20 per cent of households globally to the poorest 20 per cent. That ratio rose dramatically from 30:1 in 1960 to 103:1 in 2005 (United Nations Development Programme [UNDP] 2005).

Within countries at all levels of development, there is widespread evidence of growing inequality, at least since 1990. Taking the USA as an example, Figure 1 shows trends in family income from 1960 to 2007. The expansion of inequality is evident, with incomes of the top 5 per cent more than doubling during that period, while those of the bottom 40 per cent stagnated. Increased inequality from 1990 to 2000 is especially pronounced in central and eastern Europe and Former Soviet Republics, most Asian and Pacific economies, and advanced economies (International Labour Organization [ILO] 2008b).

One window into the problem of widening inequality is the yawning gap between wage levels and productivity growth. Increased productivity, which is the source of rising living standards, has been in evidence in many countries over the last three decades, and this should have led to rising wages and incomes. But instead, the share of national income going to workers has been falling in the USA, Europe, sub-Saharan Africa, the Middle East, Latin America and the Caribbean (ILO 2008b). The flip side of this trend is that profits have been rising and inequality widening.

Figure 1: Evolution of family income in the USA, 1960–2007.

Source: US Census Bureau, Table H-1, 'Income limits for each fifth and top 5 percent', all races, [www.census.gov/hhes/www/income/histinc/inchhtoc.html](http://www.census.gov/hhes/www/income/histinc/inchhtoc.html)



One cause of this growing gap is the increased freedom of firms and finance to move across borders. Corporations now have the option to respond to local cost pressures by relocating factories overseas, or by outsourcing production. This has undermined the bargaining power of workers and led to a slowdown in wage growth, and in some cases, an absolute decline in real wages. The fact that firms and finance are mobile has negatively affected wage growth, not only in high-income but also semi-industrialised economies (Seguino 2007).

Women, and in many cases, ethnic subordinate groups, have been particularly negatively affected because they are concentrated in just the kinds of labour-intensive export firms that are mobile. Many low- and middle-income households have relied on borrowing to maintain their living standards, and – in the USA in particular – the consequences of this are apparent in the sub-prime<sup>1</sup> mortgage crisis. Unsustainable credit expansion was one way to maintain growth in the face of inequality. The wave of foreclosures (that is, the legal proceedings initiated by a creditor to repossess the collateral for a loan that is in default) in the USA, however, was a symptom of the bigger problem of stagnating incomes for workers and debt-financed consumption.<sup>2</sup>

This creates a macroeconomic problem: as inflation-adjusted wages fall or wage growth slows, so does workers' consumption. This has led to the central problem the global economy faces, which is one of insufficient global demand for goods and services. Without sufficient buying power on the part of workers, businesses have little motivation to invest, expand output, and create jobs.

A second and related aspect of this problem is the rise in the share of national income going to 'rentiers' (Epstein 2005). A rentier is a person who lives on income from property or financial investments. The rise in the share of income going to rentiers, or put differently, wealth-holders, is because of high interest rates and low inflation, helped by anti-inflation policies of central banks, which have raised profits on financial investments. However, high interest rates also mean that the inflation-adjusted borrowing costs for households, small producers, and businesses have been high. This has held back job growth, further exacerbating the problem of joblessness and holding down wages. This global assessment varies by region. East Asia is an important exception to trends of falling or stagnating incomes and joblessness.

The redistribution of global income to wealth-holders and corporations suggests that a key feature of a policy to rectify the global economic crisis is one that, first, focuses on policies which promote full employment,<sup>3</sup> and second, seeks to resolve the problem of unequal income distribution that has led to insufficient demand. To reiterate, global joblessness is one of the central problems that macroeconomists must deal with. The most effective policy response is one that stops the destruction of jobs and sets the stage for a resumption of growth in employment, and an expansion of other livelihood opportunities.

## Stratified effects of the global slowdown: gender, race, and nation

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

The slowdown, which first impacted advanced economies, has produced ripple effects on middle- and low-income countries via declines in the demand for manufactured and commodity exports, plummeting tourism expenditures, and a drop in foreign direct investment. Another channel by which developing countries are affected is the drop in remittances from family members living in developed economies. The latter may be very significant. For example, remittances to the Africa region comprise almost 2 per cent of the region's gross domestic product (GDP), and flows from developed to developing economies totalled roughly US\$238 billion in 2008 (Ratha *et al.* 2008). While precise data on trends in remittances are not yet available,<sup>4</sup> anti-immigrant attitudes in Europe and elsewhere may very well lead to immigrants being targeted for lay-offs, and in any case, many immigrants work in sectors most likely to be affected by the downturn.

Employment losses and slowdowns in job growth have already contributed to substantial increases in unemployment. Many developing countries will face balance of payments difficulties since their major trading partners – the advanced economies – will continue to be in recession for some time. The loss in public sector revenues, owing to declining income tax revenues, puts downward pressure on budgets, and the effect on women will depend on whether and how carefully budget cuts are made, so as to avoid disproportionately harming women and children.

### *Gendered employment effects in developed economies*

The effect of the economic crisis on women's and men's employment is different, but the nature of the difference varies between countries. The effects depend on whether more jobs are lost in female- or male-dominated industries. In some developed economies such as the USA, mostly men are employed in construction and durable goods manufacturing industries – the sectors hardest hit by the sharp drop in demand. As a result, to date, job losses have hurt men more than women. That said, unmarried women who head families in the USA, most of whom are single mothers, registered an unemployment rate of 12.6 per cent by October 2009, a rate that is 2.4 percentage points above the national average for all workers (Weiss and Boushey 2009).

The unemployment data do not provide the full story of the gendered jobs effect of the crisis. As jobs are lost and income falls, fewer taxes are collected. In the USA, most states have balanced budget rules; falling revenues can be expected to lead to budget cuts. Indeed, 48 states have budget deficits projected for 2010, with gaps through 2011 estimated to mount to US\$350 billion (Center for Budget and Policy Priorities 2010). Barring more federal spending, budget cuts and lay-offs in education, health, and

other social services are likely to ensue, and indeed are already planned. Female joblessness can be expected to rise disproportionately since women workers are concentrated in occupations targeted for cuts.

In Europe, a similar scenario is unfolding. Germany expects a €316 billion tax shortfall in the next four years owing to the recession, with a number of other European countries facing similar constraints on their policy options (Buti and Szekély 2009; Walker 2009). The rapid rise in public sector deficits is putting pressure on governments to raise taxes or cut social spending, and if this occurs, job losses are likely to mirror those in the USA, with heavy negative effects on women's employment. Thus, a complete picture of the effects on men, women and gender relations in developed economies must include not only the short-term immediate effects of the crisis in the autumn of 2008, but also consider longer-term declines in tax revenues and resulting cuts in government expenditures in areas that affect women's employment more than men's.

### *Gendered employment effects in developing countries*

In developing countries in which women are concentrated in export manufacturing industries (for example, Latin America and Asia), or in tourism (for example, the Caribbean), female job losses, when fully documented, are likely to be greater than male. Evidence from Thailand is consistent with this prediction (Durano 2009). Job losses there have been overwhelmingly concentrated in the export sector; they have been especially high in electronics, an industry that employs mainly women. Employers are responding, however, in a variety of ways in addition to laying off workers. They cut wages, cut hours, delay or cut bonuses and benefits, delay salary payments, or increase overtime. As yet, gender-disaggregated data are not widely available for many of these indicators with the exception of job lay-offs. In that sense, we still have an incomplete picture of the gender effects of the crisis in terms of income from jobs.

Gendered employment and wage effects are particularly worrisome, given the large percentage of female-headed households, almost 40 per cent in the Caribbean, for example. In regions such as sub-Saharan Africa, women are mainly involved in subsistence agriculture with some off-farm work for wages or work in the informal sector. The effects of this crisis will hit this group differently than in Asia and Latin America. For the bulk of women in sub-Saharan Africa, the crisis will become apparent with the decline in remittances, and any cuts to public sector spending on education, health, and other services.

### *Gender norms and employment*

Whatever sectors are most harmed by the economic crisis, gender norms are such that women may be fired first in some countries because men are perceived to be the legitimate jobholders when jobs are scarce. A global survey conducted in 2005 found

that almost 40 per cent of respondents agreed that when jobs are scarce, men have more right to a job than women.<sup>5</sup> The experience of the Asian financial crisis confirmed this tendency, with women laid off at seven times the rate of men in South Korea (Singh and Zammit 2002). We can expect this to be a dominant feature of lay-offs in a large number of countries in the current crisis.

It is also likely that in developing economies, many more women will be pushed into the informal sector as a result. In industrialised economies, women – who tend to be more concentrated in part-time employment than men – face cuts in hours of work. Official unemployment data are likely to miss this trend because, even if under-employed, women will be counted among the ranks of the employed in labour-force surveys. In developed economies, there is evidence that some unemployed women withdraw from the labour force as a response to joblessness. This, too, will result in the underestimation of the unemployment effects of the crisis on women.

### *Ethnic inequality*

The diagnosis of the impact of the crisis needs to extend beyond the short-term focus on male and female employment. In the USA, and increasingly in Europe, the effects are likely to be racialised. Less-powerful ethnic groups and immigrants will suffer in many of the same ways women do, because they are similarly situated in the paid economy (Berndt and James 2009). However, overt discrimination also plays a role. In the USA, by October 2009, the black unemployment rate had risen 8.2 percentage points, up from 7.5 per cent in 2007. Compare this to an increase of little more than half that amount, or 4.5 percentage points, for whites, over the 2007 average of 4.9 per cent (Bureau of Labor Statistics 2009).

Europe's immigrants are likely to bear disproportionately the impact of the crisis, with consequent negative effects on remittances to developing countries.<sup>6</sup> We infer this from evidence of anti-immigrant sentiment when job availability declines. The World Values Survey (mentioned previously) found that 72 per cent of respondents believed that employers should give jobs to nationals over immigrants when jobs are scarce.<sup>7</sup> Europe has been much slower than the USA to document economic effects of ethnic discrimination because multi-ethnicity is a relatively new phenomenon, at least in some of these countries. While hard data on lay-offs are as yet lacking, we know that foreign workers are concentrated in many of the hardest hit sectors. For example, 31 per cent of construction jobs in Greece are held by foreigners; 21 per cent in Spain; and roughly 15 per cent in Portugal and Italy. Durable goods manufacturing, particularly automobile manufacturing, has also been hard hit by the crisis, and similarly employs disproportionately high percentages of foreign workers: 23.1 per cent in the Czech Republic; 19.9 per cent in Germany; and 13.4 per cent in Italy (Taran 2009).

The effects of the crisis on employment, combined with the ominous discussions of tax increases or budget cuts, have bolstered the political right, who made gains in recent European elections, linking anti-immigrant messages to job shortages (Margaritis

2009). In the Netherlands, the far right Freedom Party came in second; in Italy, the Northern League doubled its share of the vote; in Hungary, an anti-Roma party won 3 out of 22 seats; in Austria, 2 extreme right parties polled 18 per cent. And finally, the British National Party, at the time of the election a whites-only party committed to reversing the tide of non-white immigration, succeeded in getting two members elected to office (Margaronis 2009).

### *Welfare effects by gender and ethnicity*

While men are of course also expected to lose jobs, the impact will differ from the impact on women. In developed and middle-income countries, men are better positioned to weather the crisis. They have higher-paying jobs, and more assets and wealth; their jobs are more likely to offer benefits and be covered by unemployment insurance. Women's jobs pay lower wages, in part because women tend to have a higher rate of part-time employment, and are often not covered by social safety nets.

In countries without social safety nets, the impact on women is even more severe. Over half of all women in the world are in 'vulnerable jobs'; that is, they are self-employed in the informal sector, or work as unpaid family workers. Their livelihoods are thus extremely vulnerable during economic downturns (ILO 2008a).<sup>8</sup> This already high percentage is expected to rise during the crisis. Female-headed households are at greatest risk, with few if any savings to weather the crisis, and limited ownership of wealth and other assets, as compared with men. Effects on the welfare of marginalised ethnic groups in developed countries mirror the impact on women. These groups have fewer wealth, assets and other resources with which to weather economic crises compared with members of dominant ethnic groups.

Jobs are the single most important vehicle for stopping the economic freefall in which many families find themselves. However, it will take seven or more years for the job market to return to pre-crisis levels. For the USA, for example, Hughes and Seneca (2009) estimate that only by 2017 will the backlog of job shortages be eradicated. Similarly, a survey of the employment effects of 80 financial crises summarised that it took 3 years for wages to return to pre-crisis levels, and employment 7 years (UNDP 1999). The attitudes surveys cited in this paper suggest that women and people of colour will be at the back of the very long job queue, waiting the longest to be re-employed, and yet, with the greatest constraints on surviving unemployment.

### *Income shocks and children*

Single mothers and their children are also likely to suffer substantially because, when men experience declines in income, they are unable to contribute financial support for their children, and in particular are expected to reduce their contributions to female-headed households. During such times, women try to shield children from economic insecurity but are not able to protect them fully, on average. Lower spending power has been linked to malnutrition in children, and there is evidence that poor nutrition

can have serious long-term implications for children's health and psycho-social well-being, as well as their educational achievements. Because this crisis threatens to be deeper and longer than all other crises in memory, it will require greater state intervention to support those at risk. The alternative to such expenditures is dire. The long-term costs to society of under-investment in children are well-documented.

The effect on families of the loss of income through remittances can be harsh and gendered. Studies in Uganda have found, for example, that when household incomes decline, girls are likely to be withdrawn from school, and withdrawal rates rise for older girls. Boys' education is largely sheltered from such shocks. Similar evidence of the gendered effect of economic crisis on education was found for sub-Saharan Africa in the 1980s (Björkman 2006). It will be important in this crisis, therefore, to develop mechanisms to respond to the reduced ability of parents to send girls to school (Buvinic 2009).

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

## Responses to the crisis

A feminist macroeconomic policy stance on responses to the economic crisis should be framed around the goals of job creation, reversal of the trend of growing and unsustainable inequality, and a reduction of economic uncertainty. The mantra, simply summarised, should be 'Jobs, equality, security'. To achieve these goals, we need to do more than focus on the humanitarian goal of reducing vulnerability. We also need to promote policies that lead to structural change: policies that make equality compatible with rising living standards, and the creation of jobs, jobs, and more jobs. In short, we need a macroeconomic policy agenda capable of effecting economic and social transformation.

I discuss here several vehicles for addressing some of these goals, emphasising ways of addressing the shortage of jobs and constraints on livelihoods. Two key strategies can help to meet the need for jobs expansion: fiscal policy (in some cases requiring assistance from advanced countries); and a reformed role for central banks.

### *Fiscal policy and external assistance*

This crisis provides the opportunity to rethink the direction economic development policies have taken in recent years. Greater income and wealth equality – a system in which growth is compatible with equality – is a key goal. This contrasts with approaches that are dependent on inequality for growth, which have been proven to be

unsustainable. How do we create the conditions for macroeconomic expansion *and* greater equality? As a first step, fiscal policies and credit allocation (discussed in more detail in the next section) should aim not only at alleviating short-run demand-side problems, but should also promote long-term growth in productivity, and arrest the growth in inequality which has been caused by neoliberal economic policies of past decades.

### *Stimulus packages*

The poorest countries will not have the ability to engage in 'fiscal stimulus' (that is, government borrowing and spending to stimulate business and consumer spending) to generate jobs without donor funding. However, developed and middle-income countries do have the means to do so. In those cases, several criteria should guide government expenditures. Stimulus packages should not only address the contraction in consumer and business spending on goods and services. They should aim to be transformational, emphasising three key goals: job creation; gender and ethnic equality; and a shift to a 'green' economy.

In view of this goal, governments should ensure that spending on job creation is gender-equitable. Concretely, that means governments should not just spend on physical infrastructure projects (such as building roads and construction). In most countries, the jobs in this sector largely go to men, and women would thus obtain little direct benefit of such job creation. It should be noted that India is an exception to this tendency. There, women hold a large share of jobs in such projects.<sup>9</sup>

### *Social infrastructure spending*

Governments should, therefore, also allocate funding for social infrastructure investment (that is, investments in a country's most important resource – its people), in areas such as public health, education, childcare, and other social services. This has two benefits. First, it would generate jobs for women, since women are heavily represented in those occupations. Second, funding activities that help women with their care burden – for example, childcare services, contraception, and school feeding programmes – could reduce some of the negative effects of the economic crisis on women and the children for whom they care.

In countries with social safety nets, governments could also alter the rules which identify who qualifies for unemployment insurance so as to ensure women who do part-time and intermittent work are covered.

Governments should also allocate funds for apprenticeship and training programmes, in particular ones that target women for training in skilled occupations. This would help to overcome the severe problem of occupational segregation by sex that has kept women out of employment in well-paid, high-tech, skilled industries. Affirmative action programmes would also further the important goal of reducing sex segregation in employment.

In developing countries, government programming should focus on alleviating the problem of parents withdrawing girls from school. Conditional cash transfer programmes, which provide money to poor families contingent on certain behaviour such as enrolling children in school, could be expanded and increased to reduce this problem. These programmes, already in place in a number of countries (*Bolsa Familia* in Brasil and *Oportunidades* in Mexico are two well-known and successful programmes) can offer a rapid and targeted response to the crisis.

### *Fiscal oversight bodies*

Establishment of independent fiscal oversight bodies with a quota requiring equal representation of women on them could be helpful. These bodies would monitor government spending, providing advice to ensure stimulus expenditures have an equally positive impact on women and men, and reducing the possibility of politically biased allocation of stimulus funding to dominant groups at the expense of others. Gender-responsive budgeting – that is, the allocation of funds in a way that responds to women’s gendered interests and needs – is key. Women’s groups are well positioned to develop proposals that will benefit women and children.

### *Balance of payments pressures*

In some regions, such as sub-Saharan Africa, where export demand is projected to fall as a result of the decline in demand from the USA and Europe, countries will face shortfalls of foreign exchange with which to purchase imports. Some countries may respond with currency devaluations in order to spur exports. But devaluations also make imports more expensive, and the increased cost weighs heavily on women. Costs of imported food and medicines would rise in these circumstances, making it harder for women to make ends meet in the household.

There are alternative approaches to dealing with the problem of financing imports if exports decline. In the short term, countries could address the shortfall by drawing down international reserves. Estimates indicate that developing countries are holding excess international reserves equal to about 1 per cent of GDP. Using that 1 per cent to alleviate short-term current account stresses resulting from the crisis is a viable option (Rodrik 2006; Cruz and Walters 2008).<sup>10</sup> The shortfall in aggregate demand implies that counter-cyclical measures (also called ‘leaning against the wind’) are what are needed at this time. That is, given that the main macroeconomic problem is too little spending and thus joblessness, government policy must move in the opposite direction by increasing spending in order to counterbalance this trend. Spending reserves will provide the resource to fund increases in government spending.

### *Women, agricultural productivity, and food imports*

In the longer term, governments in least developed countries (LDCs), especially those in sub-Saharan Africa, can address both the problems of gender inequality and balance

of payments stresses by directing government funding toward resources for women farmers. Well-targeted expenditures will help women farmers increase their productivity, generating more food for families and reducing the demand for imports. Examples of ways to help women include expanding their access to credit and inputs as well as technical assistance. This strategy has big potential pay-offs. By some estimates, agricultural productivity would rise by between 10 and 15 per cent in a number of sub-Saharan countries if women farmers' access to inputs, credit and technical assistance were equal to men's.<sup>11</sup>

By increasing agricultural productivity, governments help to raise output and lower food prices. This reduces inflationary pressures and the demand for imports. The productivity benefits are not likely to be felt in the immediate future. However, this type of targeted expenditure that raises income over the medium to long term would be cost-effective, generating tax revenues to cover the cost of public expenditures. Moreover, investments that benefit women farmers in the short run would raise their income, helping to lessen the other negative effects of the crisis that they will experience. At the same time, government policies that help to stabilise commodity price variability can shield farmers from income volatility that is the result of fluctuation in crop yields. Responses are required both at international level (for example, through measures such as commodity price stabilisation funds),<sup>12</sup> and at the national level via measures such as establishing agricultural market boards, most of which were dismantled under the structural adjustment programmes of the 1980s and 1990s.

Government spending on the social infrastructure of countries, aside from cushioning women and children, contributes to the long-term health of the economy by raising productivity. By directing public sector spending towards job creation and social safety nets that protect women, as outlined earlier, governments would in effect be financing development for the future, since this will have the effect of creating increased productive capacity. Seen in this way, social safety net spending has both short- and long-term benefits, serving as an investment in the country's social infrastructure and future productivity. In short, it is not only humanitarian; it makes good economic sense.

### *Shared employment*

In cases where government budgets have to be cut, officials can implement these by reducing hours instead of cutting entire jobs. Reducing worker hours or implementing unpaid furloughs can help to support shared employment. Government can also play a leadership role, encouraging businesses to adopt a similar approach in order to avoid massive job lay-offs. As an example of this approach, South Korea's top 30 *chaebol* have cut wages of entry-level college graduates, using the savings to fund hires of additional interns and part-time workers.<sup>13</sup>

This method of dealing with excess workers during a crisis is preferable because it spreads the costs of the job losses more evenly across households. Although more

households will have lower incomes as a result, the macroeconomic benefits are substantial. With each household losing a little income, average household saving rates will fall, but household spending will be prevented from falling further than if income losses were concentrated in a smaller number of households. This strategy also reduces pressure to fire women and ethnic minorities first.

## Sources of funding

For poor countries, commercial borrowing will be more difficult to secure and more expensive. What other sources of funding to stimulate the economy are available? Official external finance will be required. Estimates by Nancy Birdsall (2009) indicate that US\$1 trillion in aid is needed, and the World Bank and International Monetary Fund (IMF) currently have those resources.

Developed country governments also need to maintain their bilateral aid budgets. One of the key strategies that rich countries can adopt is to provide climate change investment support to developing economies. This kind of targeted investment can act as a substitute for the significant decline in foreign direct investment that has occurred since the onset of the crisis (United Nations Conference on Trade and Development 2009), while also addressing longer-term global environmental challenges.

### *Currency transactions taxes*

An option for generating revenues for the public sector that is now widely discussed is a very small currency transactions tax (CTT).<sup>14</sup> This source of funding has several benefits. Globally, approximately US\$3 trillion is traded in foreign exchange markets daily, and only a very small percentage – less than 5 per cent – is to facilitate trade. The remainder is speculative currency transactions. This category of transaction increases financial and macroeconomic volatility, imposing costs on households not party to the transactions, especially in times of crisis. A second channel by which currency trading produces social costs is the higher level of foreign exchange reserves countries have been forced to hold to self-insure against a speculative attack. The opportunity cost of those reserves, as noted, is roughly 1 per cent of GDP that could otherwise be spent on social infrastructure to the benefit of poor households, and in particular, to reduce women's unpaid care burden.

A CTT would be similar to a pollution tax in the sense that it seeks to discourage a behaviour that can have negative social effects whose costs are not captured in the existing cost of trading, and in any case, are not fully born by trading parties. The CTT would offer a disincentive to engage in short-term speculative transactions, and estimates of the impact on trading of a modest tax are on the order of – 0.43 per cent.<sup>15</sup> That is, a 1 per cent increase in a tax on currency trades would result in less than a 0.5 per cent decline in trades (Schmidt 2007). Rich countries would generate the bulk of the tax revenues, and more generally, the tax would be highly progressive. A CTT also

makes tax avoidance legal and socially useful. That is, currency speculators can avoid the tax by reducing their transactions, a response that would have socially beneficial effects on macroeconomies.

Tax revenues generated from a global CTT could be pooled and earmarked for a variety of developmental purposes, including public investments in water and sanitation, a global insurance fund to respond to developing country budgetary constraints in times of economic crisis, and the Millennium Development Goals (MDGs). The project of establishing a CTT will require international cooperation, and it should be a top priority for developed countries as a means to fund social insurance, enhance macroeconomic stability, and discourage unproductive speculative financial activity by shifting the cost of the insurance to those who create systemic risk.

A global CTT could be a useful source of revenue for policies that aim to promote gender equality. Proposals for CTT rates vary, from 0.005 per cent to 0.25 per cent, generating between US\$35 and US\$300 billion in revenues a year. Grown *et al.* (2006) estimate the cost of MDG3-specific and gender-mainstreaming interventions in low-income countries at US\$47 billion per year, with an expenditure stream extending for five years. That amount could easily be funded with a CTT, with remaining funds used for a global insurance fund and other agreed-upon investments in physical and social infrastructure in developing countries.

### *Other taxes*

In all cases, addressing the demand-side problems with tax cuts for business and high-income households should be avoided. This approach will not result in significant increases in spending or job creation. The tax cuts instead are likely to be used to retire debt or will be saved with little impact on the macroeconomy except to worsen budget deficits. An argument can be made, instead, for raising income taxes on wealthy households to help fund and strengthen existing automatic stabilisers – that is, social safety net programmes. Raising income taxes on this group can be justified on grounds of more evenly and fairly spreading the cost of the economic crisis, which currently is disproportionately borne by women, ethnic minorities, and more generally, the poor.

### Credit policy

Governments have an opportunity to re-think laissez-faire attitudes<sup>16</sup> towards business investment. Instead of a hands-off policy approach that leaves business activities unregulated, governments should consider revising incentives in order to discourage speculative financial activities, and instead support businesses to make long-term investments that promote economic stability and productivity growth. A key to changing the incentive structure is to reform the role of central banks.

### *Reformulated role for central banks*

The current crisis provides an opportunity to reconsider the role of central banks. Historically, monetary policy addressed two key policy goals, full employment and price stability. Central banks were willing to avail themselves of a wide variety of policy instruments to achieve those goals, including credit allocation techniques to fund social sectors of the economy and develop dynamic industries, and capital management to control inflows and outflows of international capital. In recent years, however, central banks have not used these instruments. They have instead narrowed the scope of their functions to focus almost exclusively on keeping inflation low; in the process, their actions have become delinked from – and often contradictory to – government policy goals.

### *Constraints of inflation targeting*

Lack of policy coordination between governments and central banks has made it difficult for countries to stimulate investment in key sectors of the economy and address such problems as women's unequal access to credit.

The focus of central banks on inflation targeting (that is, keeping inflation low and close to zero by keeping interest rates high) has two flaws. The first of these is that inflation targeting inhibits job creation, and thus poverty reduction. That is because high interest rates used to fight inflation raise the cost of borrowing. That results in reduced spending by businesses and consumers. When buying decreases, producers cannot sell all of their goods, and employment falls. The second flaw is that many of the problems of inflation in developing countries in particular are because of supply-side bottlenecks (that is, problems which raise the costs of production such as poor transportation networks and high labour costs owing to pervasive poor health). These are problems that can be best addressed by public investment, not raising interest rates.

Moreover, evidence shows that inflation rates below 15–20 per cent do not have harmful effects on economic growth (Epstein 2006). Inflation targeting has not only been unnecessary in some cases; it has also been socially costly. There is mounting evidence that women and ethnic minorities have suffered disproportionate job losses because of inflation targeting in developing countries and in the USA (Braunstein and Heintz 2008; Heintz and Seguino 2010).

Inflationary pressures are in any case receding, owing to the decline in global demand, with inflation in advanced countries predicted to fall to 0.25 per cent this year and in developing countries, from 9 to 5 per cent (IMF 2009). It is thus an ideal moment to re-think the role of central banks.<sup>17</sup>

### *Central banks as engines of employment growth*

A reformulated role for central banks should be focused on job creation. In order to expand employment opportunities, central banks could use expansionary monetary

policy (that is, lowering interest rates in order to stimulate investment), development banking, and credit subsidies. To undertake this effort, governments would have to begin by outlining national goals for investment. For example, a comprehensive national investment strategy in high unemployment countries that focuses on job expansion might include subsidised credit to small-scale agriculture, small and medium-sized businesses, and large-scale businesses that can demonstrate their ability to promote significant increases in employment relative to their total spending. Women's enterprises and cooperatives could be targeted for such subsidies. The burden on the public budget will likely be limited, given women's strong track record for loan repayment. All of this implies that the set of goals outlined by the government would be linked to – and indeed, shape – the central bank's credit policy.

An example of credit policy tools that could be employed to attain the country's development goals is the combination of government loan guarantees with asset portfolio requirements – requiring banks to direct a certain percentage of their loans to targeted activities.<sup>18</sup> The loan guarantees would induce banks to lower their interest rates because the government had agreed to absorb some of the risk of the loans. The lower interest rate would make credit more accessible to some borrowers. Social benefits would result from directing credit to activities that stimulate job creation and raise productivity.

### *Capital management techniques*

Central banks could also potentially help stabilise their economies through the use of capital controls (that is, policies that govern international private capital flows in and out of countries). Capital controls help reduce variability of financial flows, especially short-term speculative flows. A good example of a country that has reaped the benefits of applying capital controls is Malaysia, which was, as a result, one of the first countries to recover from the Asian financial crisis.

Financial liberalisation is the root cause of volatility. Developing countries have been forced, as a consequence, to hold high levels of foreign reserves in order to self-insure against a financial crisis.<sup>19</sup> Reserves drain the economy by restricting the ability of governments to spend aid and loan money on physical infrastructure (such as roads and communications) and social infrastructure (that is, on investments in humans, such spending on education and health) needed to boost the domestic economy, create jobs, and fund policies that aim to alleviate women's care burden. Capital controls help to alleviate this leakage of needed resources from the economy.

## Conclusion

Many policymakers and academic economists have made the mistake of believing that unregulated markets – financial, trade, and business investment – could identify the most profitable investments, and assumed these would also be the most socially

beneficial. This has not been the case. It is clearer than ever that economies require state regulation to provide incentives for private investors to align their own goals of making a profit with the social goal of creating economic and social well-being that is broadly shared across society.

A central goal of policymaking should be to shift from simply a focus on liberalising trade, investment, and financial markets, and protection of intellectual property rights. These goals are not ends in themselves. Rather, the yardstick by which we measure the usefulness of economic policies should be their ability to generate broadly shared capabilities expansion and well-being. However, it is also clear that there is no 'one size fits all' solution to the economic crisis or development plans for long-term growth. Indeed, a major flaw of IMF and World Bank policies in recent decades has been the assumption that what is good for developed economies is also good for developing economies.

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

However, policies should also take a longer view. This crisis provides the opportunity to rethink the role of government and central banks in the economy. Key to effective government policy will be efforts to direct resources towards productive activity and away from speculation. Also important are measures to alleviate the downward pressure on wages that contributed to this crisis. Raising minimum wages is one strategy, though there are others.

Creating jobs will help. As unemployment drops, workers are in a better position to bargain for higher wages and more benefits, thereby generating the income to buy the goods and services that are produced. The largest share of low-wage workers is made up of women and ethnic minorities, so gender and racial/ethnic equality is likely to improve with this approach. For agricultural countries, the immediate needs are to raise productivity of farmers, especially women farmers, and finance public services such as health care and education, with targeted investments that are gender-sensitive.

This is, in many ways, a transformative moment in history, providing a window of opportunity to challenge the restrictions on economic growth and development that had been imposed by developed countries and the international financial institutions. It is an opportune moment to reconsider the view that developing countries should rely heavily on exports as a stimulus to growth. The economic contraction in rich countries, leading to a sharp decline in export demand will, in any case, force a greater reliance on developing countries' domestic demand. The policy space that has been narrowed by World Trade Organization regulations and conditionalities of IMF and World Bank loans should be revisited, and industrial policy that helps developing countries stimulate the expansion of productive capacity should be resurrected.

Addressing the economic crisis also requires a direct focus on women's well-being. Women are likely to be targeted first for job lay-offs, but typically have fewer reserves than men with which to shield themselves and their children from the drop in income. Channeling public sector spending to activities that employ women benefits not only women themselves, but also their children. It is also an investment in long-term growth. The danger in the current crisis is that governments will overlook the needs of women when deciding how to allocate funding in stimulus packages and external aid, or in making cuts. To avoid this, it is more imperative than ever that women have equal representation in decision-making on public spending, both within governments and in advisory bodies.

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## Notes

- 1 Sub-prime lending is the extension of consumer loans to risky categories of borrowers who may possess any or all of the following characteristics: low credit scores, high ratio of debt to income, or high ratio of loan to collateral. Typically the interest charged on subprime loans is significantly higher than the average loan rate to compensate lenders for the increased risk of default.
- 2 It is notable that a disproportionate share of sub-prime loans went to groups that have faced discrimination and other barriers to livelihood generation, suggesting their low income and vulnerability make them targets of predatory lending practices. See, for example, Squires *et al.* (2009).
- 3 By implication, I also include here policies that lead to expansion of livelihoods in economies where labour markets are not the primary vehicle for income generation. Such policies could include credit expansion to small businesses and farmers.

- 4 The Overseas Development Institute (2009) has produced a synthesis report of ten country studies on the impact of the crisis, and cites evidence of a decline in remittances to a number of developing countries. See also Ratha *et al.* (2008).
- 5 Author's calculations from the World Values Survey, Wave 5, [www.worldvaluesurvey.org](http://www.worldvaluesurvey.org). (last accessed 22 February 2009).
- 6 A recent Pew survey in the USA found that among Hispanic immigrants who sent remittances in the last two years, 71 per cent say they sent less in the past year than in the prior year. For more details, see Lopez *et al.* (2008). Thus far, however, the global evidence is of a slowdown on the rate of growth of remittances rather than absolute decline.
- 7 Author's calculations from World Values Survey data. See Note 5.
- 8 'Vulnerable employment' is a newly defined measure of persons who are employed in jobs that are not waged or salaried, and thus work under precarious circumstances. This category captures work in jobs without benefits or social protection programmes. This group of workers is more 'at risk' than others during economic downturns.
- 9 India's National Rural Employment Guarantee Act was passed in 2005, and guarantees employment to every rural household for at least 100 days in every financial year. This is a type of employer-of-last-resort programme.
- 10 International reserve holdings as a percentage of gross national income have risen dramatically from the 1960s to the 1990s owing to financial liberalisation (Baker and Walentin 2001). That ratio rose from 4.7 per cent in 1976 to 27.1 per cent in 2007 (World Bank 2008). Baker and Walentin (2001) estimate that the increase in reserve holdings has imposed an annual cost of 1 per cent of GDP on developing countries. This is because reserve holdings are invested in low interest bearing instruments such as US Treasury bonds, rather than in social and physical infrastructure investment or other higher yielding financial instruments.
- 11 For more details on this body of research, see Blackden and Bhanu (1999).
- 12 Commodity price stabilisation funds are akin to 'rainy day' funds. These funds are used to stabilise the prices of internationally traded commodities whose prices exhibit a high degree of instability. The funds are used to smooth the income in the face of commodity price variability. The goal is to achieve more stable income for producers and more stable production.
- 13 It should be noted that the Korean Confederation of Trade Unions has been critical of this approach, arguing that the crisis is a pretext for cutting wages of regular full-time employees.
- 14 The CTT is now widely discussed as an option for stabilising international financial flows. The UK's then Prime Minister, Gordon Brown, publicly announced his support of a financial transactions tax at the G-20 meeting in November 2009. More recently, a campaign for a Robin Hood tax on banks has gained traction. For more information on CTT campaigns, see [www.cttcampaigns.info/](http://www.cttcampaigns.info/)
- 15 Some have argued, however, that a very low tax is unlikely to substantially reduce currency speculation and other measures, such as capital management techniques, would be required to achieve this goal. See, for example, Gabel (2003).

- 16 Laissez-faire is an economic doctrine founded on a view that free markets and free trade are optimal, and that government regulation of economic activity should be limited because it leads to inefficiencies and thus waste.
- 17 For more on this topic, see Epstein (2003).
- 18 See Pollin *et al.* (2006) for an application of this approach to the case of South Africa.
- 19 Some countries such as China, however, appear to hold high levels of reserves to prevent an appreciation of their currency. This reflects their strategy of relying on exports as a vent for surplus. There are other options to export reliance. One would be to permit the currency to appreciate, and then allow domestic wages and public sector spending to increase, thereby generating the domestic demand to replace lost export sales from the currency appreciation. Women would benefit substantially from this strategy. They had been very negatively affected by the government retrenchments in previous years, absorbing a large share of the lay-offs.

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