

Separating the influence of capitalism and democracy on women's well-being

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Abstract

This empirical analysis seeks to determine which institutional arrangement, capitalism or democracy, tends to be more effective at improving women's well-being and promoting gender equality in society. Country-specific indexes measuring the degree of economic freedoms that exist within the market and the degree of political rights that exist within a democracy are used in a panel data analysis to explain the observed levels of various quality of life measures reflecting issues that are relevant to women. These empirical results indicate that capitalism often has a stronger beneficial impact on many aspects of women's well-being and gender equality in society.

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1. Introduction

Francis Fukuyama (1992) has famously proclaimed that capitalism and democracy enjoy world-wide consensus as the optimal institutions for efficiently allocating society's productive resources and effectively developing public policies to promote social welfare, respectively. However, can we also assume that each institution has an equitable impact on all subsets of individuals in society? Specifically, are capitalism and democracy independently and equally effective at promoting women's well-being and gender equality in society?

On the one hand, Public Choice economists such as Tullock (1980) have argued that the constraints on competition inherent to the collective action of democratic governments tend to promote rent seeking activity. This often results in inefficient public policies that distribute social benefits in favor of those who are endowed with greater political influence at the expense of the rest of society. If gender inequality in society implies that men are endowed with more political influence, would greater political rights exercised through enhanced democracy necessarily promote women's well-being as effectively as greater economic freedoms exercised in better developed markets?

On the other hand, Neoclassical development economists such as Stiglitz (2002) have argued that many of the market friendly social institutions of capitalism often usurp the dignity and well-being of common laborers and other oppressed

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groups in society, who are ultimately treated as pawns within the profit maximization calculus of society's elite. Such exploitation requires that many economic freedoms in society should be subservient to democratically determined public policies aimed at equalizing socio-economic outcomes for all. If gender inequality in society implies that men are endowed with more economic opportunities, would greater economic freedoms exercised in a better developed marketplace be as effective at promoting women's well-being as greater political rights exercised through enhanced democracy?

How can we resolve these conflicting theoretical perspectives? After all, every society must determine where the optimal institutional boundary should be placed between the sphere of freedoms to be exercised by the individual in the marketplace and that individual's obligation to accept constraints on these freedoms that are imposed by democratically determined public policy. Indeed, Sen (1999) argues that every society must face an unavoidable trade-off between adopting those institutions that preserve the *innate* freedoms that can be exercised by individuals to enhance their well-being and adopting those social institutions that partially constrain these innate freedoms. He reminds us that the constraints are necessary to produce opportunities for all individuals in society that would enhance their well-being by exercising newly *created* freedoms through public policy. But which of these competing perspectives is correct?

When rival paradigms offer opposing perspectives on the expected impact of each institution, with each generating conflicting advice for setting the optimal theoretical boundary of individual freedoms to be exercised in society, it then becomes a matter of empirical investigation to help us sort out the truth. However, when the empirical analyses of each institution's impact on the well-being of women have been performed in isolation, this ignores the potential for a greater presence of one institution to diminish the beneficial impact imparted by the other. This means that such empirical results can also yield conflicting empirical evidence in support of one institution over the other.

This necessitates an empirical approach that allows for the potential *interaction* of each institution on the other's ability to influence the well-being of women in society. Only then can we determine which theoretical perspective appears to be a more accurate representation of reality. The following cross-country analysis examines the net impact that capitalism and democracy each have on the quality of life for women. The goal is to determine which institutional structure appears to be more effective at promoting women's well-being and gender equality while controlling for their potential interaction.

2. Considering institutional influences on women's well-being in society

It is widely accepted in the Neoclassical economics literature that a decentralized market institution is efficient for allocating the productive resources in society in an absence of Pigouvian externalities. Indeed, global economic history over the last few decades has revealed how market economies have enjoyed greater prosperity and growth relative to socialist economies. However, is the institution of capitalism also *effective* at enhancing those non-monetary measures of well-being that are germane to women?

Friedman (1962) and Hayek (1988) both argue that centralizing resource allocation decisions, even within democratic societies, diminishes the scope of opportunities that must be created for both consumers and producers to thrive within a dynamic economic environment. A decentralized market process, utilizing an unfettered market pricing system, spontaneously generates the proper incentive structure for voluntary human interaction that yields more than just greater economic efficiency. The market process generates a *greater diversity of consumption opportunities* for consumers who are seeking alternative products and services to adjust their consumption patterns optimally, as well as a greater motivation for entrepreneurs to accept more risk in discovering and employing a *greater diversity of production technologies*.

Both Hayek and Friedman maintain that this increased diversity of economic opportunities allows consumers and producers to adapt better to a dynamic local and world economy. If this increased diversity includes greater opportunities for female entrepreneurs, laborers and consumers, then it is reasonable to expect that greater economic freedoms in a country would be associated with higher levels of those non-monetary measures of well-being for women in society as well. Indeed, Fort and Schipani (2004) examine how competition for dependable, productive labor between multi-national corporations operating in developing countries has produced benefits specific to women, including non-discrimination policies and training programs, on-site child care, and other family friendly opportunities for increasing the number of women in the labor force.

What happens in the presence of Pigouvian externalities? It is also widely accepted in the Neoclassical economics literature that a representative democracy is an effective institution for generating public policies that enhance the

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