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Free Markets:
Friends or Foes?**

By Deborah Walker



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Feminism and Free Markets: Friends or Foes?

By Deborah Walker

The term feminism often conjures up images of angry women bashing men, criticizing capitalism, and turning to the state for answers. Indeed, as I researched this topic I found that capitalism was often attacked not only by radical Marxist feminists, but also by the more mainstream feminists like Gloria Steinem, Susan Faludi, and Naomi Wolf, who have found themselves on best-seller lists. As an economist, my study of the market has led me to a deep appreciation of economic freedom. To me markets and prices are beautiful and wonderful. To understand how free markets work is to marvel at their ability to create wealth for a society that allows people like me to sit and think about such matters as feminism. So although my main interest in feminism is economic in nature, it does not stop there. I am not only an economist, I am a woman. There is a moral dimension to feminism that cannot be ignored.

In his recent book *Forbidden Grounds: The Case Against Employment Discrimination Laws*, Richard Epstein writes, "In my judgment, feminism is the single most powerful social movement of our time, one that addresses every aspect of human and social life." The feminist movement questions not only our economic order, but also the legal order upon which the economic order rests. And it also questions our moral order, upon which the legal order rests or should rest, in my opinion. In essence, feminism questions some of the basic cultural norms by which we live our lives. Is this questioning wrong? No, not necessarily. However, I disagree with how many people ask the questions. Moreover, I will argue that they give the wrong answers which, in turn, produce undesirable social and economic consequences.

Politically Correct? Not! Let me begin by telling you what I am not. First and foremost, I am not a politically correct academic feminist. What does this mean? For those of you who are not in the academy, it means that I do not believe capitalism is bad for women. I do not believe men have deliberately designed every institution in history to enable men to dominate women. And I do not believe that there is only one research agenda for feminists. Most academic feminists today will not listen to alternative views of feminism. Ask, for example, Camille Paglia or Christina Sommers about feminist reactions to their alternative views.

Most academic feminists today are anti-capitalist statists. They are inconsistent, elitist, and, in my opinion, very anti-woman. They will say, for example, that men have deliberately designed institutions (capitalism for one) to dominate women. To quote one of the leading theorists in feminist legal theory, Catherine MacKinnon, "Here, on the first day that matters, dominance was achieved, probably by force. By the second day, division along the same lines had to be relatively firmly in place. On the third day, if not sooner, differences were demarcated, together with social systems to exaggerate them in perception and in fact, *because* the systematically differential delivery of benefits and deprivations required making no mistake about who was who."

MacKinnon is saying that most of our institutions—private property rights, marriage, and exchange, for instance—were deliberately and consciously designed by men and that women throughout history have been passive agents. I believe this is insulting to women and gives undeserved credit to men. Genuine institutions are not deliberately designed by anyone; they evolve spontane-

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ously out of the social interactions of men and women. To view free trade or market exchange, which is capitalism, as a deliberately designed method of domination is to be ignorant of why trade occurs and why private property rights emerge in civilization.

Second, when the great majority of women say that academic feminists do not speak for them, feminists reply that women do not know what they really want. Only the academic elite know. This argument suggests that women have been duped to believe they want what they do not want. Feminists typically fall back on this argument time and again. How insulting to women! How is it that men are so clever as to have brainwashed all of us? Furthermore, how is it that the academic elite has escaped brainwashing? The answer is usually “through education.” I have three graduate degrees. Following their argument, I should be entitled to tell every woman in this room what she really wants!

No Conservative. What else am I not? I am not a conservative. Let me explain how I use the term “conservative.” I am not a conservative for the same reasons Friedrich Hayek gave in his essay, “Why I am Not a Conservative.” Professor Hayek explained that a true classical liberal is not afraid of the changes that personal and economic liberty brings, even when he or she is not sure what the changes will be.

I think many conservatives have made the mistake of the academic feminists. They have, at times, lumped all women into a group. They have assumed all women want the same thing or, worse, think all women belong in a particular place! I do not think we should try to guess how many women would work inside the home if they could freely choose to do so. Just as it is wrong to assume there should be a certain number of female CEO’s, it is as wrong to assume there should be a certain number of homemakers.

Feminism and Freedom. There are natural differences between men and women and they manifest themselves in different ways. But I would argue that capitalism is responsible for technological advances which have changed the economic order from one in which physical strength and stamina are necessary for the production of goods to one in which they are no longer prerequisites for financial success. Women can now enter fields they could not enter earlier—remember, this is because capitalism has made possible technological progress. As a result, I am not afraid of how cultural norms may change in a free society as women make non-conventional choices. I am *as* opposed to social planning to preserve particular cultural norms as I am to economic planning. Both suffer from the same fallacy: the belief that there is a person or group able to know the subjective values and desires of others and the individual circumstances of their lives.

I think free markets and a free society are compatible with feminism. Let me define feminism and the principles to which I subscribe. I believe women have been treated as second class citizens, for lack of a better phrase, in one form or another throughout history. In the United States this has manifested itself in such laws as those which did not allow women to own property, to sue, to enter into contracts, to enter certain occupations, or to vote. Women have been governed—and in some cases still are governed—according to cultural norms which tell them that only certain types of behavior are appropriate. For example, what I am doing now, speaking in a public place to a mixed audience of men and women, was considered inappropriate 150 years ago. In essence, feminism as I understand it asks for equality under the law, but it also asks that women command the same respect as complete human beings as men. Free markets not only support but promote this brand of feminism.

To make my position clearer I want to quote Ludwig von Mises. This is from his book *Socialism*: “So far as Feminism seeks to adjust the legal position of woman to that of man, so far as it seeks to offer her legal and economic freedom to develop and act in accordance with her inclinations, desires, and economic circumstances, so far it is nothing more than a branch of the great liberal movement which advocates peaceful and free evolution.”

Peaceful and free evolution. I cannot say it any better than that. Professor Mises describes how man is dominant over woman in violent societies and in violent times. He explains that this domination breaks down in a free society, in the absence of violence, and that it is not in the interest of men to dominate women, even within the household. Societies that are based on the premises of socialism, on violence, on the premise that might makes right, or on the premise of *equality of outcome* will not be societies conducive to feminism.

Feminism and Statism. Unfortunately, what most feminists call for today are socialist, statist policies. These policies include affirmative action legislation, government-supported child care, mandated employment benefits such as family leave, and, worst of all, comparable pay for comparable worth. These policies undermine the workings of free markets.

But do these policies work? What are they designed to do? These policies are supposed to decrease discrimination in hiring and salary decisions by employers. They are supposed to increase the ease by which working mothers and fathers can enter the workforce by turning over the responsibility of raising children to the state, or by forcing employers to take on that responsibility and, in so doing, hasten cultural change. In short, the principles of a free society, or what Professor Hayek terms its *general rules*, have been betrayed, and expediency has become the order of the day. These *specific commands*, the policies I have mentioned, undermine and contradict the general rules of a free society in several ways. They take day-to-day decision-making from individual hands and put it in the hands of legislators. They destroy freedom of contract and undermine private property rights. What are the consequences? Do these specific commands accomplish what is intended? Do they decrease discrimination? I argue that they do not. Actually, they do just the opposite. Let me explain.

Susan Faludi Is Right. There is a backlash against women in our society. But it was not created by the press as Faludi claims. The backlash stems from the fact that employers do not like to be told who they can and cannot hire, and men do not like to be overlooked for jobs or promotions for which they are qualified simply because they are men. Unfortunately, this backlash (or increase in discrimination) is directed toward women. It should be directed instead toward the real cause of discrimination—the state.

Discrimination increases when government mandates, e.g., child care or family leave policies, increase the costs of hiring women over men. True, there are individual women who have jobs they would not otherwise have because of these specific commands. But that does not mean discrimination has decreased or that we are better off as a society. On the contrary, many people are out of a job or are underemployed because of these specific commands.

Undermining the general rules of a free economy decreases the efficiency of the economy. Jobs are created when resources are put to productive or more productive uses. This can only come about if resources, including human resources, are moved in directions that entrepreneurs freely choose. Entrepreneurs have their pocketbooks on the line and are closest to the problems at hand. They do not always make the right decisions, but even their failures provide vital information to future entrepreneurs, and certainly no government agency can do a better job. My point is that specific commands hinder the entrepreneurial process. Resources are used less productively, and new jobs are *not created*. Unfortunately, no one can point to a *specific* unemployed person and say he or she is out of a job because of affirmative action legislation or family leave legislation. But any good economist can explain the relation of cause and effect.

Breaking the Rules. OK, you may say, but at least these specific commands have created social and cultural change. Oh, yes, change which has increased tension between the sexes and which, to some degree, is partly responsible for the breakdown of marriages. Domestic violence is with us in full force. These are the kinds of consequences that arise from favoring expediency over principle, from breaking down the *general rules* of a free society.

Women have made progress. However, that progress is the result of a cultural revolution that came about in spite of much government legislation. It began when the early feminists demanded equality under the law. Once women were on the same playing field as men, were allowed to play by the same rules, we began to make progress. It is those *general rules* and *free markets* that have created the kinds of cultural change favoring, in Professor Mises' words, "*peaceful and free evolution.*"

So now we come to specifics. How do free markets break down discriminatory barriers for women and promote peaceful cultural change?

The Cost of Discrimination. First, discrimination against women in labor markets will decrease when it is in an entrepreneur's best interest. Discrimination on the basis of sex can be costly. Consider an instance of sexism in its purest form, i.e., as economist Thomas Sowell explains, "where people are treated differently because of group membership as such." If a firm decides that it will only hire men, for example, the firm must spend more time searching for qualified applicants who also must be men. The added search for men can be very costly, especially if there are very few qualified people in the relevant labor market. The discriminating firm can then face additional costs. In order to attract the few qualified persons to the firm who are men, it must pay them relatively higher wages. If other firms do not discriminate on the basis of sex, their labor pools are larger. They will not have to offer such high wages in order to attract qualified persons to their firms. Consequently, the discriminating employer faces higher costs in two ways: through longer and more extensive searches, the costs of which also include lost productivity, and through effectively decreasing the available (i.e., acceptable) labor supply, driving up the wages that the employer must pay.

Since firms only survive in markets if they make monetary profits, discriminating firms with higher costs will be at a competitive disadvantage and will have either to stop the discriminating behavior to remain competitive or lose profitability and perhaps even close their doors. In this way, competition in markets can, at times, decrease pure discrimination. However, the less competitive a market is, the more likely a discriminating employer will be able to bear the costs of discrimination. For instance, in industries where there are legal restrictions to entry or in government-operated firms and nonprofit organizations, discrimination is more likely to persist. Nonprofit or government-operated firms are not subject to competitive forces in the sense that they do not have to make a profit to survive. In essence, in many cases they can afford to discriminate when firms faced with more productive competitors cannot.

Third Party Discrimination. In some cases, third parties can be the real cause of employer discrimination. For example, customers or existing employees can insist that certain categories of potential employee be eliminated from consideration. In some cases, it can be economically desirable to discriminate. However, the market in some instances can also diminish third party discrimination. Customer discrimination, for example, can be reduced if customers do not have direct contact with all employees. Customers cannot push their preferences on an entire firm without assuming considerable costs. When one buys a loaf of bread, one does not usually ask the cashier if a woman or man baked it.

Discrimination Perceived As Cost-Reducing. Turn now to a case where an employer may discriminate on the basis of a group characteristic. This is sometimes known as statistical discrimination. For example, women may be seen as less productive than men because, on average, they have higher turnover rates and are more likely to take leaves of absence than are men. Therefore, an employer may refuse to hire specific women because all women are perceived to be, on average, less productive.

Whether the characteristics are real or falsely perceived is important. As I have argued, if the perception regarding the group average is incorrect, competitive forces will tend to punish discriminat-

ing employers. However, if the perception is correct, women who fall in the upper range of the scale, i.e., those who are more productive than the average woman, will be punished because of their sex. Employers may decide to discriminate because the costs of screening individual women to discover if they fall in the upper range of the distribution will outweigh the estimated benefits of finding them.

On the other hand, most employers would rather screen individual employees and hire the most productive in any group. In essence, then, employers face a knowledge problem regarding which employees to hire. They must trade off the cost of screening individual employees against the cost of missing out on hiring very productive workers. This is why firms, indeed market forces, have come up with different ways to screen employees at lower costs. Employers use employment agencies, interviews, references, a variety of tests such as aptitude or skill level tests, and they look for brand names in the educational and vocational institutions which potential employees attended. All these devices decrease screening costs for employers and thereby increase the likelihood that potential employees will be hired on the basis of their individual attributes rather than on the basis of their group membership.

Employment Tests. Anything which increases the flow of information about individual employees will lead to a decrease in employer discrimination based on group membership. To the extent that the flow of information is interrupted, employers' screening costs remain high and they resort to hiring on the basis of statistical averages. As a consequence, legislation that prohibits the use of employment tests or prohibits the asking of particular questions in employment interviews will actually decrease the likelihood that individual women can set themselves apart from the group and be hired on the basis of individual merit.

As economists Thomas Sowell and Walter Williams have noted, the knowledge problem that employers face can be a source of opportunity for *female* employers. As women, they will sometimes have more knowledge about the true characteristics of individual women and will therefore be at an information advantage over other employers.

Employment Contracts. Lastly, the employment contract itself is an important source of information for employers who are willing to hire from any group of employees, as long as they can in some way determine individual merit prior to employment. This can be especially important for women, who may be seen as less productive than men because of their biological ability to give birth. Through individual contract terms a woman can assure an employer that she will not leave the job within a specific period of time, will not ask for an extended leave if she does choose to have a child, and so on. In other words, she can legally promise the employer that she will take full responsibility for her personal choices and will not expect the employer's costs to increase because of those choices. In this way, women who have chosen to make their market career their top priority can signal that fact to employers and be judged on their individual merits. The freedom to make creative, individualized employment contracts can be a very important source of information to employers and it can thereby decrease discrimination.

When I once explained this theory to a reporter, her reply was, "But doesn't this put a lot of responsibility upon women?" And the answer is yes. If women want cultural change, they have to be the driving force behind it, they have to stop turning to the state, and they have to stop trying to force men to change. Freedom calls for individual responsibility. I am in complete agreement with Camille Paglia here. As she says, "This is my belief, that feminism begins at home. It begins with every single woman drawing the line."

Self-Correcting Discrimination. I do want to note that there are other ways discrimination can be overcome in free markets. When wages are free to vary as the market sees fit, discriminatory practices can be broken down. If an employer is faced with hiring a highly skilled male employee or

a less skilled female employee, an employer can be induced to hire the less skilled woman if the difference in the wage rates between the two workers justifies the difference in productivity. Two important points must follow. First, if the perception regarding the skill or productivity level is correct, then hiring the less skilled woman enables her to gain valuable experience and skills, increasing her market value and wage rate over time. Second, if the perception of productivity is incorrect, hiring a woman over an equally productive male at a relatively lower wage rate allows the woman to obtain the job and prove her productivity, thereby also allowing her to increase her wage over time—sometimes almost immediately upon discovery that the employer's perception was incorrect.

Why Unwarranted Discrimination Persists. Although the arguments I have summarized demonstrate how competitive markets can decrease discrimination, there are several reasons why discrimination will persist in many cases. First, markets are not static and the information contained within them is dispersed and constantly changing. While employers attempt to hire the most productive employees, their inability to obtain information on individual applicants may cause them to continue using statistical averages.

Furthermore, because markets are dynamic and information is never perfect, markets are never perfectly competitive and monetary profits are never fully maximized. In fact, it is impossible for a firm to know if its profits are maximized. In reality employers try to make enough monetary profit to satisfy themselves such that they will not move the firm's resources elsewhere. It may be the case that some employers are able to trade off monetary profit for personal satisfaction. In other words, because markets are not perfect, some discrimination may persist because employers would rather discriminate than make more money.

As I have mentioned, government barriers to entry, protective tariffs, and the like are also important reasons why discrimination remains in markets. These policies make markets less competitive, thereby allowing discriminatory behavior to persist.

Desirable Discrimination. In some cases discrimination will persist because it can be profitable and desirable. For example, let's return to the case where current employees, not the employer, prefer working with men rather than women. The employer may find it profitable to accept these preferences simply because it will decrease costs within the firm. When employees are diverse, the "governing costs" of reaching a consensus regarding rules within the firm can be very high. On the other hand, when employees are similar, they are more likely to easily and efficiently agree to rules, both formal and informal, that govern the work environment. In some cases, women may prefer to work with other women because, for instance, being more sympathetic to short-term periods of absence because of child care responsibilities, they are more likely to "cover" for their fellow female employees. A firm must therefore weigh these governing costs against the potential benefits of having a more diverse workplace. For example, if a firm's customers are primarily women, the firm may want to hire women who have special knowledge regarding how their products should be designed and marketed.

Discrimination as Self-Selection. To minimize conflict, groups may have a tendency to self-select. When the process of self-selection is unhindered, worker satisfaction will increase and, as Richard Epstein argues, the income of all workers may also increase. If, for instance, male chauvinists tend to group together in particular firms, then the rest of the workforce will not have to deal with them. As a consequence, although job openings in a particular firm may be reduced for any particular group of women, all other job opportunities for women will increase. Because the chauvinists are drawn to each other, women will find less discrimination against them in all other firms in the labor market.

Markets and Families. Besides decreasing undesirable discrimination over time, there is a second way free markets produce positive change. As I have argued, free markets lead to real job cre-

ation and a strong economy in general. And a strong economy translates into more choices, including the choice *not* to enter the workforce when support of the family requires only one working spouse. So, for those of you who think I have forgotten the women and men who do the most difficult work in the world—building a loving home and raising decent children—I have not. Free markets are good for all women and men because they allow greater choice. This is what feminism is all about. Feminism should not only address choices in the workforce, it should address choices about lifestyles. In this way, free markets are good for men and children too. I am convinced that if left alone, the creative forces of the market would generate a variety of positive responses enabling men and women to juggle careers and child-rearing.

Markets and Culture. And finally, free markets create positive cultural change, change which takes place slowly and from inside the social system. Markets create change through the free choices and mutual give-and-take occurring between men and women. Markets do not claim that there is one place for women and one place for men. *Free cultural evolution* asks for marginal changes from women and men, but it does not force change on anyone. Change occurs because institutions—including the policies of business firms—and, most importantly, cultural norms reflect new choices made by men and women. We cannot go back to the 1950s, and I, for one, do not want to. We have to move forward. We are in difficult times of cultural change, but the difficulty has been made worse by the coercive hand of government.

Above all, any cultural movement, feminism or otherwise, must be based upon *principles*: the principles of self-ownership, private property rights, and individual liberty. These principles alone will produce a social order where women are granted the respect they deserve, as entrepreneurs, as chief executive officers, as secretaries, as truck drivers, as economists, and as full-time homemakers and mothers.

