Chapter 2
Women’s Approach to Economics and Firms

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2.1 Introduction

References to women’s approaches to economics are rare in the classical and neoclassical economic literature. The few exemptions include Mary Palley Marshall, Harriet Hardy Taylor Mill and Harriet Martineau. However, references to their work are very marginal, with the economic literature stressing the views of Adam Smith, Ricardo, Marshall and Keynes.

Recently, the literature has begun to consider the publications of several groups of women whose work was well-received, and, in fact, some of which were used to advance the “orthodox” ideas and others of which were considered as pioneers of now-accepted approaches. Examples of the former include the works of Harriet Martineau and Millicent Garrett Fawcett (Fawcett 1870, 1874). In the second group, we can consider the approaches of, for example, Minnie Throop England, who between 1905 and 1915 published relevant articles about the crisis considered by Irving Fisher in his celebrated The Purchasing Power of Money (1911), co-authored with John Maynard Keynes. Another example is Karin Kock, whose A Study of Interest Rate (1929) is considered a pioneer work on the monetary policy of the Stockholm School of economic thought.

Despite these examples and others that could be included (Dimand 1995 pp 1–11), the female perspective of women on economics has not been considered relevant. Two main circumstances could explain this (Pujol 1992 pp 2–3). First, the economy has

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been dominated by men and shows a high level of androcentrism. Second is the neoclassical paradigm itself and its inherent limitations. In this paradigm, it is very difficult to introduce those questions in which women are interested, as it stresses issues relating mainly to exchange, excluding non-monetary questions. This paradigm also deals with a very restricted hypothesis on behaviour, especially in relation to the way individuals live, and not taking into consideration the circumstances of women. Finally, the instruments used by the paradigm (models, equations) do not allow for analysis of the problems that women face in the labour market.

Recent literature has tried to avoid these problems and to complete the *homo economicus* hypothesis, including different aspects related to women’s behaviour. In the chapters of this book, we consider the aspects related to entrepreneurship activity. It is also interesting to know the main approaches of women in economics that would complete the views developed in the following articles. For this reason, we analyze in this chapter the main female economic approaches. In Sect. 2.2, the women’s situation in the eighteenth and nineteenth centuries is exposed. In Sects. 2.3 and 2.4, the classical and neoclassical approaches, respectively, are analyzed. In Sect. 2.5, productivity and firms’ activity are considered. Conclusions are considered in Sect. 2.6.

### 2.2 Women’s Situation during the Eighteenth and Nineteenth Centuries

To better understand the female economic perspective, it is necessary to consider their social situation. In general terms, the idea was that middle-class women had to tend the home and care for the children. This was different in the case of the lower classes because often men’s salaries were not sufficient to meet the family’s expenses, so the women, by necessity, had access to the labour market. Even then, this activity was criticized by some reformers because they thought it would negatively affect the family’s welfare (James 2006 p 343). Therefore, in general with the exception of the latter case, it was considered that husbands must protect their wives and wives must attend to the needs of the home, oversee the servants, and take care of the children. As Ruskin (1865) stated in *Sesame and Lilies*, women’s lives should be dedicated to making their husbands happy. Thus, their activity must be focused on finding a good husband in order to have adequate means to carry out their primary function in the home.

In the middle of the nineteenth century, this situation changed in part. Trade expansion made it necessary to employ more production workers, and, thus, young women gained access to the labour market. However, the prevailing mentality remained unchanged. This acquiescence was only a concession, and women were still required to attend to their perceived domestic responsibilities in addition to their jobs, jobs for which their salaries were lower than men’s. Leoni Levi’s (1885) tables showed that in 1867 the average salary of women under the age of 20 was
slightly higher than that of their male counterparts (20£ and 19£, respectively), but the average salary of women over 20 was significantly lower than that of men (28£ and 49£, respectively). The situation was similar in 1884, but with greater disparity in female/male wages in the case of women under 20 years of age (6£).

From the economic point of view, this wage difference could be explained by the different education received by women, a situation some thinkers criticized. For example, Condorcet, in his *Cinq Mémoires sur l'instruction publique* (*Five reports on public education*) (Condorcet 1791), states that women should have the same education as men. He goes on to say that this training would be useful as it would increase the happiness of the family because the husband would not forget the knowledge acquired in his youth thanks to his conversations with his wife (quoted by Crampe-Casnabet 1993 p 378).

It is also relevant to take into account that some writers have criticized this view of women’s education, as is the case in Gissing’s novel, *Odd Women* (1893), or Bellamy’s, *Looking Backward*, a futuristic utopian work that made a great impression at the time of its publication. For example, Chap. XXV states that women will be relieved of their activities at home in the future and they will be members of the *industrial army*, working alongside men (Bellamy 1888, p 150).

As we have seen, the social environment prevailing in the eighteenth, nineteenth and early twentieth centuries was not very favourable towards women. As her primary role was considered to be to care for and manage a family, it was important for women to make a good *choice* of marriage. Even though some women were forced into the job market because the husband could not financially meet all his family’s needs, and some women gained access to employment due to economic expansion, still the core mandate for women was to care for the family.

Some of these issues were considered in publications on economics by women, with education being the most relevant issue in the earliest of these. But with the development of economic thought, different topics were included in the analysis. Following the traditional division in the history of economic thought, we consider two main contributions: classical and neoclassical.

### 2.3 Classical Contributions

The foundation of the classical approach is generally considered to be Adam Smith’s *The Wealth of Nations* (1776), which served as the basis for development. Classical authors advocated free trade and minimum intervention by the state in the economy because they supposed that the markets were efficient. In turn, the division of labour generated beneficial effects on productive activity and skills that promoted and facilitated innovation and enhanced the development of natural and acquired talents (Smith 1776 II1). This led to an increase in output (*market expansion*), which led to a greater division of labour and ultimately greater economic growth.
On the other hand, Adam Smith developed a supply-side economic growth model\(^1\) that includes the economic elements that he considered relevant. In the model, he introduced a production function considering that output growth depends on three factors: population growth, investment and land growth. Population growth depends on the available sustenance, investment on the rate of savings generated basically by capitalists and land growth on technological fertility’s improvements of unproductive lands or the conquest of new lands.

Technological progress could also be growth enhancing and the division of labour plays a relevant role in the process. Technological progress facilitates production tasks and increases the competitiveness of the firms. The origin of division of labour is the effect derived from certain individuals’ propensity to barter because they consider that it is the best way to transform costs of transacting into benefits (Smith I.i.1). So,

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\text{As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market (Smith Liii.1).}
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Considering this origin and limitation, division of labour is a cause and an effect of economic growth. The capital accumulation process increases population and employment, and the manufactured goods are broadened. This extension of the market drives the division of labour, and the effects derived from this division enhance economic growth. Greater economic growth extends the market, facilitating a new division of labour. But it is necessary to take into account that this division does not always have a positive effect on economic growth. Adam Smith in Book I of *The Wealth of Nations* analyzes the positive effects, and Book V shows the negative ones.\(^2\)

From the positive effects point of view, division of labour shows three effects:

The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgement with which it is anywhere directed, or applied, seem to have been the effects of the division of labour (Smith I.i.1).

In modern terms, these effects would be increased skill, time saved in the transition from one task to another, furthering innovation, and facilitating the development of natural and acquired talents. As division of labour increases output (increases the extent of the market), it encourages the possibility of further division of labour and, thus, further growth. For this reason, Smith argued that growth was self-reinforcing as it exhibited increasing returns to scale.

The negative effect of labour division is shown in Book V (Smith V.i.f. 47–51) as being mainly a social cost and not an economic one. It is due to the monotonous,

\(^1\) An economic growth model based on Adam Smith’s ideas is developed by Eltis (2000, Chapter 3).

\(^2\) It can be considered that from a macro point of view the effects are extremely positive, but from a micro perspective the costs of the division of labour are also greatly negative. On this topic, see Rosenberg (1990).
simple task to be developed by the worker derived from such division. Education is the basic factor that can reduce or eliminate this negative effect that limits economic growth possibilities. And it is such an important limitation to economic prosperity that Smith introduces an exemption to his laissez-faire approach, stating that the government must not only care about but intervene in education.

In general terms, Adam Smith considered at least five ways in which the influence of education on different factors and variables would have indirect effects on economic growth: division of labour, reducing inequality, decreasing social strains, commerce and capital social formation. All these factors are currently valid, although modern theoreticians concede some relevance to other factors, such as health or fertility.

Thus, education plays a central role and Adam Smith believes that families are responsible for providing. If they cannot, the government should step in and do so. For a very small expense the public can facilitate, can encourage and can even impose upon almost the whole body of the people, the necessity of acquiring those most essential parts of the education (Smith 1776 V.if. 54).

In the case of women, Smith states that they should be recipients of this provision in order to prepare their children for what society asks of them (Smith 1776 V.if. 47). However, it is necessary to take into account that Adam Smith considers two kind of education: minimum, that is, the education that everybody has to achieve and higher, that is, education for those who want to improve their training and who must, therefore, pay for it.

The main problem with this approach is that there is a very large gap in the type of training received by men and women, with earlier access to better jobs going to those who have higher education. This gap maintains inequality in the labour market between men and women, a circumstance considered by the women economists as they realize how important education is. In this sense, for example, Mary Wollstonecraft (1792) noted that women needed education not only to be pleasing to men and have something to talk about with them, but also because if they are not better trained

they will stop progress of knowledge and virtue. (Wollstonecraft 1792 p XVI).

And men and women must be educated

to a large extent by the views and ways of society in which they live. (Wollstonecraft 1792 p 17).

3 In his Lectures on Jurisprudence, Adam Smith considers another effect: “A man has then time to study only one branch of business, and it would be a great disadvantage to oblige every one to learn the military art and keep himself in the practice of it. The defence of the country is therefore committed to a certain set of men who have nothing else to do; and among the bulk of the people military courage diminishes. By having their minds constantly employed on the arts of luxury, they grow effeminate and dastardly” (Smith 1978 p 540).

4 In this sense, Winch (1978 p 119) considers education as an antidote to the corrupting influence of division of labour trying to introduce ancient provisions for gymnastic exercises and music.
In short, according to Adam Smith, women, apart from performing some productive work, play an essential role in creating an enabling environment for children and providing them with adequate preparation for the future, and creating an adequate social climate.

We can classify the contribution to economics by women into two groups. The first group includes short works, the main objective of which is to disseminate ideas dealing with the political economy in the clearest and simplest way. In this group, we can include Jean Marcet’s *Conversations on Political Economy* (Marcet 1816). In this book, Marcet, using different dialogues between Mrs. Bryant and Caroline, presents various principles put forward by Adam Smith, Ricardo, Malthus, Sismondi and Say. The book was highly praised by Malthus, Ricardo and Say. It was not the only book he wrote on this subject, but the other two, *John Hopkin’s of Political Economy* (1833) and *Rich and Poor* (1851), were less celebrated.

The second group would include contributions relating to the status of and economic opportunities for women. We can include Priscilla Wakefield’s book, *Reflections on the Present Condition of the Female Sex* (Wakefield 1798). She begins by saying that Adam Smith does not specify that both sexes are beneficial to society and that women have the same qualities as men, although possibly in different degrees. For this reason, Wakefield expounds on the role that women play in society in terms of their usefulness. In this process, she affirms the need “for women to be educated for lucrative jobs” and says that it is absurd that society does not allow this kind of training (Wakefield 1798 p 29). In this sense, married women should be educated in order to educate their children, and single women should be educated so that they can earn their livelihood in a dignified and honourable profession (Wakefield 1798 p 40). Finally, it is also interesting to take into account that Wakefield promoted further education for women not on the basis of their equality with men, but to enable them to better perform their roles (Dimand 2003 p 201). This approach is of great interest to the labour market analysis, as is shown in the next sections.

### 2.4 Neoclassical Approach

The neoclassical approach is acknowledged to have largely followed the approach of the classical authors, formalized from the viewpoint of mathematical ideas, with emphasis on market equilibrium, behaviour of individuals and the necessity of free trade. On the other hand, it is also relevant to take into account that the neoclassical thinking about women was not positive. The neoclassical position on women can be characterized in the following five points (Pujol 2003 p 22):

1. All women are married or will be and have or will have children.
2. Women are economically dependent on their husbands or fathers.
3. They specialize in housework.
4. They are unproductive in the industrial arena.
5. They are irrational and, therefore, are not expected to make sound economic decisions.
This statement contrasts with that of Senior (1834), who describes the behaviour of women as rational when making decisions, although sometimes amoral.

In the late nineteenth and early twentieth century, a large body of literature by women economists emerged who questioned and criticized these ideas. It is possible to group their ideas into categories focusing on three issues: wage gap, social status and consumption.

The first one, the wage gap, is the aspect that has attracted the most attention. The statistical information presented previously shows that there are important wage differences between men and women, and we would add that the latter had difficulty gaining access to some professions. From the neoclassical point of view, this gap is due explained primarily by the lesser productivity of women. To increase productivity, it is necessary to improve women’s education – an aspect that we have considered previously – and/or introduce innovations. On the other hand, Pigou (1920) notes that women’s wages were determined by their husbands’ wages. Whether women worked outside the home at all also depends on the income of their husbands, whether it was enough to meet the family’s expenses. In addition, without demonstration, Pigou (1920 p 607) stated that women usually are less prepared for work in the marketplace and that their capacity is lower than that of men. Therefore, their wage must necessarily be less than that of men. Edgeworth, however, says that this rationale is often used by men even though, in some cases, their productivity is lower than the women’s. This is one of the three reasons why the labour market is not competitive (the other two are the employer’s power and trade union activity) (Edgeworth 1922 p 439). Edgeworth added that his impression was that even if the restrictions were removed, the wages of men would remain higher than those of women (Edgeworth 1922 p 442).

For all these reasons, women stressed the importance of education to overcome these obstacles and to have the same opportunities and wages in the labour market. But as we show in the next section, neoclassical authors considered that this would reduce the social welfare because women would participate in industrial activity and not in homemaking and child-bearing activities.

The second issue women focused on is the position of women in society. In this sense, while the classical authors may have lauded the education of women, this is not due to its benefits to them in the labour market, but to enable them to better serve their families as conversationalists for their husbands and educators for their children. Various women have rebelled against this submissive role of a wife whose main purpose is to carry out the house work and to make her husband happy.

Charlotte Perkins Gilman, in her well-known book Women and Economics (Gilman 1898), criticizes the idea that women are regarded as possessions of men and that they are unproductive while men are considered as “competitive” and “those who provide the resources”. Gilman further objects to their consideration that a man is in charge of feeding the woman, which involves determining her status, seeing this as detrimental to society because this kind of behaviour and thinking slows social development (Gilman 1898 pp 34 and 36). From Perkins’ perspective, the introduction of machinery in the production process has given women greater access to jobs by reducing the differences between men and women in terms of physical capabilities.
The third area to consider here is the question of consumption. Gilman addressed this, stating that women’s consumption need not be considered harmful, as we see below, and that they no longer play the role in the family traditionally attributed to them because it does not generate the social capital that the classical authors proclaimed (Gilman 1898 p 100). We have already indicated in the previous section that the traditional approaches stated that women could contribute little to society, especially when compared with men. In turn, some authors have stressed the role of women as consumers, holding this behaviour reprehensible from the classical and neoclassical point of view because frugality is necessary to obtain the funds required in the investment process. There has also been a reaction against this approach. First, one must refer to Bertha June (Richardson) Lucas, an economist who has not been given due attention. In 1904, Lucas published *The Woman Who Spends* (Lucas 1904), stressing the positive effects of consumption on society and anticipating some ideas that Keynes would later expose in *The General Theory* (Keynes 1936).

Lucas starts out by noting that the economy has been a field essentially developed by men, and one which women were not considered capable of understanding. But over time, women have seen the necessity of studying the economics of consumption, “to know how to spend their money”. This kind of study was especially pertinent at the time the book was published because it was acknowledged that it is typically the woman who deals with expenses and that she has a responsibility to do it properly (Lucas 1904 pp 20–22). The main problem is that they can not satisfy all requirements (...). We must live according to income, that is, spending ... must be in proportion to what we have to spend (Lucas 1904 pp 49–50).

Primarily for this reason, women play a prominent role in the economy and society because from Lucas’ point of view the actual economic function of women is not only to fill the function of the demand side, but to do so wisely and judiciously. Women achieve the best supply when they understand the way to realize the best demand (Lucas 1904 pp 48–49).

Hazel Kyrk can also be included in this group with her book, *Theory of Consumption* (1923). Kyrk, like Lucas, believes that the family is a unit of consumption, being ruled by women, and they establish the budgets and obtain the market goods that are needed (1923 p 20). The consumption depends on income and the real income can be increased by two ways: expanding the productive capacity of society, thereby increasing the quantity of goods, and increasing monetary income, which is supposed to create a certain distribution of income (Kyrk 1923 p 47). It is this last point that this author considers essential.

Indeed, if society is characterized by an unequal distribution of income, only a few will be able to consume and supply their own needs (Kyrk 1923 pp 49–50). But this is not just a problem of dissatisfaction of a portion of the population, but also is a production problem, since from Kyrk’s point of view, this is also going to affect several areas (Kyrk 1923 pp 55–56). First, there are more goods demanded (those that are demanded by those with a higher income), so their prices rise. Secondly, it is necessary to change the structures of production and to reduce the production of goods that are not demanded. Thus, Kyrk also seems to question the law of Say.
And from her point of view, these problems are raised because in any economic organization it is essential to avoid a poor distribution of income.

And what is the solution to these problems? The answer is to create a socialized consumption and ensure a minimum income. Socialized consumption means, in general terms, that

- group of economic goods and services which is more for common use or enjoyment than individual (Kyrk 1923 p 57).

Thus, many people who have no access to these goods because they have insufficient income can obtain them thanks to the provision made by the state. For example, a public library would facilitate reading for the poorer classes of society and would enhance their education and improve their situation.

In this line of thought, it would also be necessary to guarantee a minimum income for each person and they, then, would have to decide how to use it. In this way, all individuals would have access to goods and services considered necessary, regardless of their individual attainments in the free market (Kyrk 1923 p 63). However, as Kyrk recognized, it is very difficult to determine those goods that are considered as necessities.

Finally, Kyrk also pays special attention to the effects of innovation on consumers. Traditional analysis currently focuses on the impact of innovation on production. It is assumed that innovation will increase productivity and generate more finished goods and services, thereby increasing welfare and finally the happiness of individuals. But Kyrk also adds other effects (Kyrk 1923 pp 66–69). First, innovation expands the consumption possibilities of individuals. Second, it generates mass production and homogeneous goods. This means that there is no differentiation in the product, which traditionally has been done especially through trademarks. Third, there has been a greater separation between the producer and consumer, with the consequence that the relationship between them was impersonal or non-existent. Fourth, innovation often changes, where the consumer lives, many times causing disturbances in the environment and creating negative effects.

### 2.5 Productivity and Firm’s Activity

From the point of view of the industry, the neoclassical assumption was that women had low industrial productivity. As Pujol (2003 p 30) shows, women were characterized by Pigou (1920) as unskilled and low-grade workers, with the main proof of this statement being that they received lower wages than men. Public measures were not useful to deal with this issue because the general welfare would be reduced if women shifted their activity from homemaking and child bearing to industrial activity (Pigou 1952 pp 224–225; quoted by Pujol 2003 pp 31–32). So, measures designed to increase the training or education of women was considered wasteful because it was not easy or possible to increase their productivity (Pigou 1920 pp 569–570; quoted by Pujol 2003 p 31).
This assumption was criticized by several authors (Bodichon 1857, for example) for two aspects. First, there are some customs and traditions that play an important role in wage determination, keeping women’s wages lower than men’s (Pujol 2003). Second, in a similar way, men’s wages were traditionally higher because it was thought that the man was the one who had to earn enough to meet all the family’s needs.

In looking at firms’ activity, we must consider again Kyrk’s work referred to previously (Kyrk 1923). As shown above, Kyrk stressed the relevance of consumption in economic activity. But she also considered the role of industry in the process. From her point of view,

There must, in other words, be a nice adjustment between industrial and non-industrial pursuits, between saving and spending (Kyrk 1923 p 75).

Although consumption has received the most attention in the economic activity literature, it is also necessary to take into account industry activity. And in this sense, we must pay attention to the effects derived from such activity. From Kyrk’s perspective:

The notable features of modern industry, which show themselves in concrete form in the instruments and processes of production, are the use of the power-driven machines, the minute specialization with its accompanying standardization and the reduction of every process to a routine, the extensive use of capital in all its forms, and the growth in the size of the business unit (Kyrk 1923 p 66).

It is crucial to determine the way in which the new machinery and technology could affect individuals in their consumption decisions.

2.6 Conclusions

In previous sections, the approaches of women regarding some economic aspects – such as education, consumption, firms and productivity – have been exposed. One group of literature by women was dedicated to popularizing the ideas considered orthodox, and others were considered as developments or pioneers of new approaches. The other group criticized some neoclassical assumptions and proposed some approaches that could be considered as pioneering later approaches. In this sense, Kyrk’s consumption behaviour can be considered as pre-Keynesian. All these approaches must be known as well as the orthodox and canonical ones, and an effort is carried out to bring attention to them.

On the other hand, modern literature is showing the role and the implications of women’s activity in economic performance, and many examples of this relevance can be seen in the rest of chapters of this book.
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