Real Exchange Rate, the Wage Gender Gap and Domestic Violence*

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Abstract. We exploit the natural experiment generated by a strong depreciation of the Uruguayan real exchange rate between 2002 and 2003 to explore the causes of domestic violence. The real exchange rate is a measure of the relative price between tradable and non-tradable goods. We thus take advantage of the fact that traditionally men are employed in tradable industries (manufacturing) and women are employed in non-tradable industries (services), and therefore a change in the real exchange rate have a different impact in men's and women's salaries. In line with models of household bargaining, we find that an increase in the real exchange rate (thus generating an increase in the bargaining power of men relative to women) increases domestic violence.

Keywords: Real exchange rate, domestic violence, assaults.

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I. Introduction

Domestic violence is widespread and common. One out of three women around the world has suffered violent episodes from a partner during their lifetime (WHO 2013). The problem particularly affects women living in developing countries. A report based on data from the Demographic and Health Surveys in nine developing countries (Cambodia, Colombia, Dominican Republic, Egypt, Haiti, India, Nicaragua, Peru, and Zambia) shows that the percentages of women who said an intimate partner had ever abused them ranged from 48 percent in Zambia and 44 percent in Colombia to 18 percent in Cambodia and 19 percent in India (Kishor and Johnson 2004).

In this paper we explore the causes of domestic violence, using data from Uruguay. Uruguay is not an exception in terms of the prevalence of domestic violence: a recent survey from the Ministry of Public Health reveals that one out of four women in Uruguay is a victim of domestic violence. The survey also shows that the incidence of domestic violence is higher in unfavorable socio economic contexts and that the problem is more important for women with low educational attainment.

To study the causes of domestic violence we exploit the natural experiment generated by a strong depreciation of the Uruguayan real exchange rate between 2002 and 2003,[1] followed by an equally significant appreciation of the real exchange rate between 2004 and 2010. As the real exchange rate is a measure of the relative price between tradable and non-tradable goods, we take advantage of the fact that men are traditionally employed in tradable industries (e.g., manufacturing) and women are traditionally employed in non-tradable industries (e.g., services).

[1] Due to the lack of international reserves to sustain the value of the currency in July 2002, the Central Bank of Uruguay was forced to a sudden interuption in the fixed exchange rate regime (crawling peg).

We contribute to the ongoing debate between two alternative theories. On the one hand, socio-cultural models predict that violence against women increases as women's wages increase, mainly because men feel their traditional gender role threatened: "when she brings home the bacon" (Macmillan and Gartner 1999). On the other hand, models of household bargaining predict that an increase in a woman's relative potential wage increases her bargaining power by providing her with an outside option (Farmer and Tiefenthaler 1997; Aizer 2010). Given that it is not the actual wage but the potential wage what determines the outside option, improving relative labor market conditions for women will decrease violence even in those households where women do not work (Pollak 2005). The opposite is also true: a decrease in the labor market conditions of women relative to men will increase domestic violence.

Most of previous empirical studies (Gelles 1976; Bowlus and Seitz 2006; Tauchen et al. 1991; Farmer and Tiefenthaler 1997) suffer relevant methodological shortcomings given either by omitted variables associated with women's wages (such as education) that could explain the negative relationship with violence, or by the reverse causality given by the fact that domestic violence may reduce woman's productivity and earnings.

A notable exception is Aizer (2010), who presents a household bargaining model that incorporates violence and analyzes the impact of the wage gap as a function of local demand for female and male labor. She provides empirical support in the US for a causal relationship between relative labor market conditions for women and domestic violence. Her main finding is that a decrease in the wage gap between men and women reduces violence against women. Our paper adds new evidence that it is consistent with the household bargaining model in Aizer (2010). We exploit an exogenous variation in wage gender gap generated by the fluctuation in the real exchange rate. This allows us to estimate

the impact effect of better outside option for the woman on domestic violence. Exploiting the variability in the proportion of women and men in tradable and non-tradable sector across the jurisdictions in Montevideo, Uruguay, we find that a reduction in potential wages for women relative to men leads to an increase in domestic violence.

The paper continuous as follows. Section II presents describes the natural experiment and presents the empirical strategy. Section III reports the results. Section IV concludes.

II. Empirical strategy

We analyze domestic violence in a period where potential gender wage gap suffered an exogenous strong variation. Specifically, we exploit changes in the real exchange rate (RXR) as a measure of the relative price between tradable (male-work intensive) and non-tradable goods (female-work intensive). This approach accounts for the fact that the theory predicts that are the potential wages (not actual wages) that affect domestic violence.

The RXR adopts alternative definitions in the literature (Hinkle and Montiel 1999). First, the RXR can be defined as the relationship between the level of the domestic prices and the level of external prices (trade-weighted multilateral RXR), both expressed in the same currency: $RXR_1 = (E.P^*)/P$, where E is the nominal exchange rate measured in domestic currency per foreign currency, P* is the level of external prices, and P the level of domestic prices. More importantly for the purpose of this paper, the RXR can also be defined as a price ratio of different categories of goods of the domestic economy: tradable goods and services and non-tradable goods and services. Tradable goods and services are subjected to international trade so arbitrage determines that their internal price tends to equal the international one. This is not true for non-tradable goods and services where the price must be adjusted to close the excess of demand or supply in the domestic market. The RXR is thus defined as follows: $RXR_2 = P_T/P_N$, where P_T refers to the tradable price and P_N

for the non-tradable price. It is straightforward to show that both definitions of the RXR are closely related.[2] Therefore, changes in the multilateral trade-weighted RXR come hand in hand with changes in the relative prices of tradable and non-tradable goods.

Data from the National Household Survey confirms that wages of men relative to women in Uruguay commoves with the RXR. In fact, between 2002 and 2004, after a strong RXR depreciation, the ratio of men's wages to women's wages in Montevideo increased from 1.52 to 1.58; and between 2004 and 2010, after a RXR appreciation (similar in absolute values to the previous depreciation), the ratio of men's wages to women's wages decreased back to 1.52.

Figure 1 presents the striking pattern of the times series of domestic violence and the trade-weighted multilateral RXR in the period January 2002 to December 2010. Data comes from the Ministry of the Interior and the Central Bank of Uruguay. Between June 2002 and January 2004 the trade-weighted multilateral RXR depreciated by 58 percent while at the same time domestic violence increased by 35 percent. That is, between 2002 and 2004, violence against women in Uruguay increased as their potential relative earnings have decreased. Interestingly, the reverse dynamics is also true: between January 2004 and February 2009 the trade-weighted multilateral RXR appreciated by 29 percent while at the same time domestic violence decreased by 23 percent.

In this same period the behavior of a similar type of crime such as assaults (physical attack against the body of another person resulting in serious bodily injury excluding

[2] $RXR1 = (E.P^*)/P = (E.P^*)/ (P_T^{\alpha} .P_N^{(1-\alpha)}) = E.P^*/(P_T) [P_T / P_N]^{(1-\alpha)} = D.RER2^{(1-\alpha)}$ where P is a geometric price average, D is the tradable goods price deviation with respect to the external prices expressed in the same currency, and α is the share of the tradable goods in the domestic prices basket.

domestic violence) was different to the one observed in domestic violence.[3] Assaults increased by 14 percent between June 2002 and January 2004 and also increased by 14 percent between January 2004 and February 2009.

A basic regression analysis on monthly data form January 2002 to December 2010 (not shown, available upon request) confirms these results.[4] The coefficient of regressing domestic violence on RXR is positive and statistically significant at the 10 percent level. The coefficient is not statistically significant when we consider assaults instead of domestic violence.[5]

To further analyze this observed pattern, we use the database of the Police Department of Montevideo,[6] which includes the universe of offenses reported between 2002 and 2010. The database has information on the date and the jurisdiction of the incident (Montevideo has 24 police jurisdictions). There is no a regular survey on domestic violence victimization.

Additionally, we gather data from the National Household Survey of 2002 (the first year in our sample period) in order to compute labor participation in tradable and non-tradable industries. We identify industries as tradable or non-tradable. We consider the International Standard Industrial Classification (Rev.3) to define a) Agriculture, hunting and forestry, b) Fishing, c) Mining and quarrying, and d) Manufacturing as tradable industries. The remaining industries were considered as non-tradables. This classification is

[3] Our database includes 19,276 cases of Domestic Violence (2% of total crime between 2020 and 2010 in Montevideo) and 38,657 cases of Assaults (5% of total crime between 2020 and 2010 in Montevideo).
[4] Time series are stationary. The Augmented Dickey-Fuller Test (MacKinnon 1996) rejects the null hypothesis that the time series on domestic violence and assaults have a unit root.
[5] To deal with potential heteroskedasticity and serial correlation we compute Newey-West robust standard errors with a lag truncation of 4 months.
[6] Montevideo, the capital of Uruguay, has a population of 1.5 million of inhabitants, roughly half of the population of the country.

in line with Stockman and Tesar (1995) and Aboal et al. (2005). We also consider the same data for the period 2003-2010 with no significant differences.[7]

Figure 2 reports the histogram of the ratio of male to female participation in tradable sectors for the 24 jurisdictions in Montevideo. There is an important variability in the proportion of men to women working in tradable sector across jurisdictions in Montevideo: it ranges from a minimum of 1.23 to a maximum of 3.67. As expected, tradable industries are more intensive in male human capital than in female human capital: 10 percent of men are employed in tradable sectors compared to a 5 percent of women.

To identify the effect of wage gender gap on domestic violence we exploit the variability in the proportion of women and men in tradable and non-tradable sector in each police jurisdiction. Formally, we want to estimate the following equation,

$$Y_{it} = \beta D_i RXR_t + \mu_t + \delta_i + e_{it} \qquad (1)$$

where Y_{it} is domestic violence in jurisdiction *i* and month *t*, D_i is the relative proportion of men in tradable sectors in jurisdiction *i*, RXR_t is the multilateral exchange rate, μ_t is a month fixed effect, δ_i is jurisdiction fixed effect, and e_{it} is the usual error term. In this equation the parameter of interest is β. The hypothesis is that an increase in the exchange rate should have a stronger effect on domestic violence in those jurisdictions where the relative proportion of men in tradable sectors is higher. That is, we expect $\beta > 0$.

III. Results

Table 2 report estimates of Equation (1). In line with our hypothesis, the coefficient on the interaction term is positive and statistically significant. That is, an increase in the exchange rate has a stronger effect on domestic violence in those jurisdictions where the

[7] In each police jurisdiction, the values of the *coefficient of variation* (the ratio of the standard deviation to the mean) across time from 2002 to 2010 of the share of men and women working in tradable-sector industries are very stable.

relative proportion of men in tradable sectors is higher. Indeed, the coefficient is not only statistically significant but also quantitatively substantial. An increase of one standard deviation in the RXR is associated with a decrease of 1.39 cases of domestic violence (evaluated at the sample mean of the ratio of men to female participation in tradable sectors). This decrease in the number of cases of domestic violence is important since it represents almost 20 percent of the sample mean (7.39).

The result holds when we use the number of cases of domestic violence normalized by jurisdictions' population (Column (2)), and when we use annual data instead of monthly data (Column (3)).[8] The significance of the coefficients of the interaction variable decreases when we cluster standard errors at the jurisdiction level, but in all cases the p-value is smaller than 0.20.

We additionally run a false experiment considering the variation in assaults. That is, we estimate Equation (1) but using assaults as the outcome instead of domestic violence. As shown in Table 3, the coefficient on the interaction term is not significant in all the specifications. These results provide additional confidence that the effect on domestic violence is indeed causal.

IV. Conclusions

In this paper we present new evidence that a reduction in potential wages for women relative to men leads to an increase in domestic violence.

Our paper, as most papers in this literature, uses data on reported crime instead of actual crime. In principle, it is possible that reporting is not orthogonal to the changes in the exchange rate potentially biasing our estimates. However, this bias could go in either direction. For example, the appreciation of the real exchange rate may decrease reporting if

[8] Results also hold when we use a regression model for count data (Poisson or Negative Binomial).

women feel sorry for the worsening of men's economic conditions (women may feel 'responsible' for what is going on). Alternatively, the availability of better outside options may increase the propensity of women to report domestic violence.

A plausible interpretation to our findings is that a depreciation of the exchange rate affects income, and there are these income effects the ones that affect domestic violence instead of the change in women bargaining power. However, the fact that there are no effects on other types of crime suggests that income effects are not at work.

Taking these caveats into account, our findings suggest that policies oriented to reduce the wage gender gap would reduce domestic violence.

Macro literature has long recognized potential economic advantages of real exchange depreciations given by exporters' competitiveness gains. In this paper, we unveil a hidden potential social problem associated with the real exchange depreciation in those cases in which men are more employed in tradable sectors: the increase in domestic violence. In terms of policy implications, our findings indicate that the business cycle should be taken into account when designing gender-violence prevention actions.

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Table 1. Summary statistics

Variable	Mean	Standard deviation	Minimum	Maximum	Obs.
Domestic violence	7.394	6.514	0	44	2,592
Assaults	14.879	9.683	0	56	2,592
Ratio of men to female participation in tradable sectors	2.081	0.564	1	4	24
Multilateral exchange rate	121.593	15.079	91	150	108

Table 2. Main results

	Domestic violence	**Domestic violence/Population**	**Domestic violence**
	(1)	(2)	(3)
Ratio of men to female participation in	0.0442	0.0005	0.0491
tradable sectors * Multilateral exchange rate	(0.010)	(0.0003)	(0.026)
	[0.031]	[0.0004]	[0.036]
Observations	2,592	2,592	216

Notes: All models are estimated by OLS. Models (1) and (2) use monthly data and include month fixed effects and jurisdiction fixed effects. Model (3) uses yearly data and includes year fixed effects and jurisdiction fixed effects. Robust standard errors are in parentheses. Standard errors clustered at the jurisdiction level are in brackets.

Table 3. False experiments

	Assaults	**Assaults/Population**	**Assaults**
	(1)	(2)	(3)
Ratio of men to female participation in	0.0124	-0.0006	0.0042
tradable sectors * Multilateral exchange rate	(0.012)	(0.0004)	(0.027)
	[0.023]	[0.001]	[0.021]
Observations	2,592	2,592	216

Notes: All models are estimated by OLS. Models (1) and (2) use monthly data and include month fixed effects and jurisdiction fixed effects. Model (3) uses yearly data and includes year fixed effects and jurisdiction fixed effects. Robust standard errors are in parentheses. Standard errors clustered at the jurisdiction level are in brackets.

Figure 1. Domestic Violence & the Real Exchange Rate

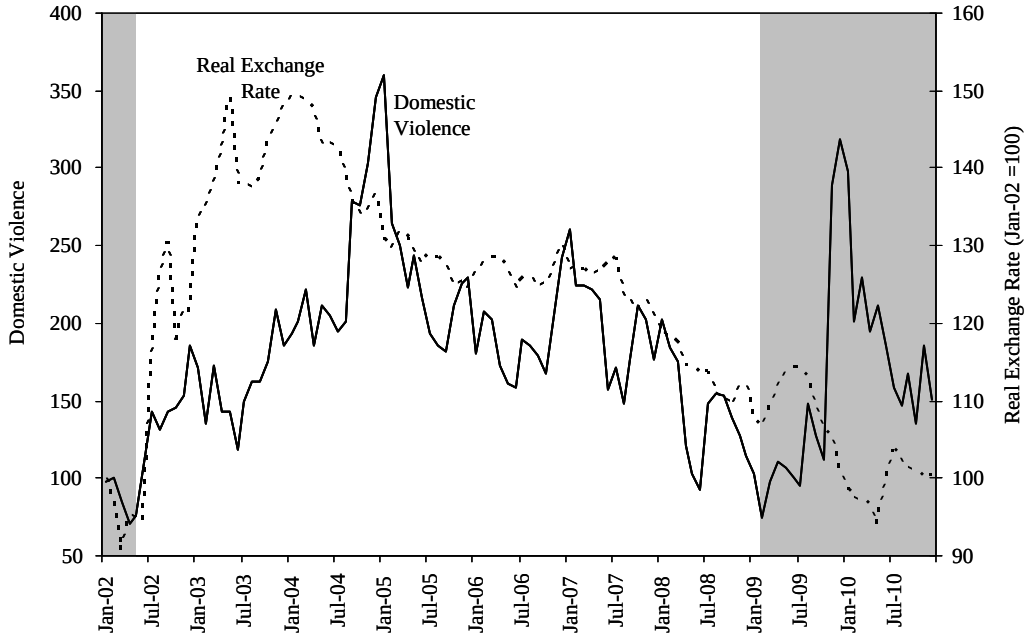


Figure 2. Histogram of the ratio of male to female participation in tradable sectors

