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Macroeconomics and Macroeconomic Policy from a Gender Perspective

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Section 2 Gender and financial liberalisation

The liberalisation of the international financial system

The international financial system that was constructed in 1944 at Bretton Woods was built around international flows of public finance from the World Bank and IMF, both of which had social goals specified in their Articles of Agreement. In the case of the Bank, reference was made to investment in infrastructure 'thereby assisting in raising productivity, the standard of living, and the conditions of labour'. In the case of the IMF, reference was made to the promotion and maintenance of high levels of employment and real income. It was a system with a degree of public ownership, although the voting rights were not democratically distributed. However, there was from the beginning a tension between these goals and the interests of owners of private capital, who were interested in maximizing the returns to their assets, irrespective of social goals. One expression of that tension was the shifting balance between automatic access to the pooled resources of the IMF; and conditional access, with the conditions reflecting ideas about 'sound finance' that required countries with balance of payments deficits to cut public expenditure to reduce these deficits, irrespective of the implications for social goals. From the mid 1970s, conditionality dominated and was increasingly linked to neoliberal economic polices (Elson,1994; Harris, 1988). At the heart of these policies was liberalization of international financial markets, first for ‘developed’ countries and then for ‘developing’ countries. It was argued that this would lead to the most efficient distribution of finance, but efficiency was judged only in terms of the use of marketed resources.

The IMF and World Bank as sources of finance became dwarfed by international banks borrowing and lending Eurodollars and petrodollars in offshore financial centres. For instance, Singh and Zammit (2000:1250) point out that between 1984-89 and 1990-96, net official capital inflows to developing countries fell by nearly 50 per cent, from US$27.2 billions to US$16.8 billions. In the same period, net private capital flows increased by 700 percent, from US$17.8 billions to US$129.4 billions. The most rapid increase in private capital flows to developing countries was in portfolio investment (bonds and equities), which was negligible in the 1970s and 1980s but which was US$51.1 in the period 1990-1996.

The Gender Implications of Financial Crises

International markets for money are inherently uncertain and liberalized international financial transactions are fraught with risks for which no objective probability distribution exists –such as currency risk, capital flight risk, fragility risk, contagion risk and sovereignty risk (Grabel, 2000). Information is necessarily imperfect and available information is unequally distributed. Such markets are argued by heterodox economists to be intrinsically unstable (eg. Spotton, 1997; Singh and Zammit, 2000). Periods of economic growth lead to exuberant risk taking and the value of financial assets becomes inflated. But eventually the growing gap between financial values and real returns leads to a subjective reevaluation of risks and holders of financial assets begin to sell them. Herd behaviour magnifies the propensity to sell and further stimulates the perception that risks have increased. The way is paved for crises in which the sudden drop in assets prices sparks panic selling; and the price of assets bought with loans drops below the value of loans outstanding, leading to collapse of credit markets and impending bankruptcy of banks and other private sector financial intermediaries. The crisis may be mitigated by intervention by governments or international public financial institutions to co-ordinate markets, restore confidence and bail out banks and other intermediaries. But such intervention can make things worse if the wrong advice is given and the wrong policies imposed; and bailing out failing firms shifts costs from individual actors in financial markets to other members of society. Moreover the expectation of being bailed out can lead to even greater excess financial risk-taking when the economy recovers.

It has been estimated that the average costs of government bailouts in banking crashes over the past 20 years amounts to about 9 per cent of GDP in developing countries and 4 per cent of GDP in developed countries (Caprio and Honohan, 1999). The most immediately visible costs are to the taxpayers who fund the bailouts, and to the people who lose their jobs. But, as pointed out by Irene van Staveren (2000), the burden of excessive financial risk-taking is also shifted to the people, mainly women, who provide the unpaid care that keeps families and communities going. Particularly in poor and middle income families, women are called upon to spend more time and effort in providing non-market substitutes for marketed goods that their families can no longer afford to buy, and providing substitutes for public services that are no longer available. In addition, women have to seek more paid work in informal employment, where new entrants making ‘distress sales’ tend to drive down returns. The burdens are thus not fully reflected in the GDP statistics but show up also in the additional stress and tiredness and ill-health.

Though the costs of the risks inherent in liberalized financial markets are shifted to women, as provisioners of last resort, women play little role in the governance of financial markets (van Staveren, 2000). Of course most men play little role either. Decisions about fiscal and monetary policy, about the rules governing financial markets, about corporate accountability, are taken by a small group of officials, politicians, and financiers with little participation of citizens or their elected representatives. The IMF (with guidance from the US Treasury) plays the key role in determining how the burdens of a crisis should be shared.

Gender and the Asian Financial Crisis

Attempts by the IFIs to manage the Asian financial crisis have been widely regarded as unsuccessful, not only by those outside the IFIs but also by some who were inside them at the time , most notably Joe Stiglitz, then the Chief Economic Adviser at the World Bank (Stiglitz, 1998, 2000).The IMF in particular has been widely criticized for giving the wrong advice and imposing the wrong policies during the Asian financial crisis. It imposed cuts in public expenditure though the underlying problem was not a budget deficit; and instead of drawing attention to the strong real economies of most of the afflicted countries, it emphasized the need for much more thorough liberalisation of markets and major changes in corporate governance, doing nothing to restore confidence among panicking investors. In the view of Singh and Zammit (2000:1255), ‘a relatively tractable liquidity problem was thus turned into a massive solvency crisis, with enormous losses in employment and output.' There was also a substantial increase in poverty, reduced public services and increased social stress (UNDP, 1999:40).

As yet a comprehensive study of the gender impact of the crisis is lacking. But detailed studies of survey data in both Indonesia and the Philippines show that as men became unemployed, the amount of work done by women increased, as women took up the role of provider of last resort. For Indonesia, relevant data is available from the Indonesia Family Life Surveys, which covered more than 30,000 people in 1997/early 1998 and a follow up survey of a 25 per cent sample in late 1998. Using this source, Frankenberg, Thomas and Beegle (1999) calculate the percentage of the labour force employed in paid work in 1997 and 1998 and show that for men it decreased by 1.3 per cent, while for women it increased by 1 per cent. When unpaid work is also included, there is an increase for both men and women, but for men the increase is only 1.3 per cent, while for women it is 7 per cent. A nationally representative survey conducted by the Indonesian statistical office sixteen months after the onset of the crisis reveals the household coping strategies underlying these figures - especially increasing the labour market participation of older married women with children and producing more goods for home consumption (de la Rocha, 2000)

In the case of the Philippines, Lim (2000) using data from the Labor Force Survey shows that both male and female unemployment rates rose between 1997 and 1998:for men from 7.5 per cent to 9.5 per cent and for women from 8.5 per cent to 9.9 per cent. However mean weekly work hours for those employed moved in opposite directions for men and women, with those of men falling while those of women rose. Among the factors that may explain the increase for women is an increase in the hours of work undertaken by home based women working on subcontract (Ofreneo, Lim and Gula, 1999). This increase in the average hours that women spend in paid work has occurred in a context in which women typically spend almost 8 hours a day on housekeeping and child care compared about 2 and a half hours for men (UNDP,1997).

In S. Korea, it was women who lost jobs more than men. Between 1997 and 1998, data from the National Statistical Office show that employment declined by 3.8 per cent for men and 7.1 per cent for women (Lee and Rhee, 1999). In response, the Korean government promoted a national campaign under the slogan ‘Get Your Husband Energized’, calling on women to provide support for husbands who were depressed due to unemployment or bankruptcy - husbands were not called upon to provide reciprocal support for wives (Tauli-Korpuz, 1998).

Gender Equality and Reform of the International Financial System

The financial crises have lead to calls from orthodox economists for a continuation of financial liberalisation but with more international surveillance of the fiscal and monetary policies of governments. An alternative approach is the creation of new international institutions to regulate global finance. For instance, Eatwell and Taylor (1998) call for the setting up of a World Financial Authority (WFA) to manage systemic risk and pursue *both* financial targets *and* social goals such as high rates of growth and employment. It would develop and impose regulations and co-ordinate national monetary polices. The IMF and World Bank would both have roles to play, under the supervision of the WFA which would have the responsibility of ensuring their transparency and accountability. Eatwell and Taylor are among those economists who are concerned that financial liberalization has imposed macroeconomic policies that keep employment and output below their potential and the WFA is supposed to prevent this from happening. In the terminology used in section 1 of this paper, Eatwell and Taylor seek to eliminate deflationary bias.

So to do Singh and Zammit (2000), who are particularly concerned with developing countries . Full employment is the best safety net, they say. In their view developing countries must be allowed the option of maintaining capital controls. ‘The right to control capital flows must be the linchpin of any reform of the international financial system from the perspective of developing countries.’ (p.1264). In addition mechanisms are needed for more equitable sharing of the burden of bad debt between international creditors and debtors in developing countries. They argue that reforming the international economic system so as to promote growth of production and employment on a sustainable basis would benefit both men and women, but that women derive even greater benefits since they bear so many of the costs of instability.

Avoidance of deflationary bias is, however, necessary but not sufficient. As Aslanbeigui and Summerfield (2000) point out, growth of GNP and increased paid employment can have different implications for men and women. To use the terminology of section 1, full employment can be subject to ‘male breadwinner bias’. Controls on international movements of capital are quite compatible with patriarchal control of women. The so-called ‘golden age’ of full employment and rapid growth in the OECD countries in the 1950s and 60s was characterized by both kinds of control. Women were supposed to be fulltime housewives. Any new financial architecture must guard against male breadwinner bias as well as deflationary bias. This means that there must be other targets besides that of full employment.

Employment targets must be complemented by targets for an equitable balance between work and family life; and state-based entitlements for the providers of unpaid care work as citizens in their own right (eg pension credits for time out of the labour market for care responsibilities). This suggests that a target of full employment needs to be supplemented by a target of family-friendly decent jobs on comparable terms for both men and women. Just as research was done in the 1940s to define and measure employment and unemployment, research now needs to be done on identifying components of decent, family-friendly work, and constructing an index which measure how far men and women have this kind of employment.Targets for this kind of employment will be easier to reach, and a good balance between paid work and the rest of life will be easier to achieve if privatisation bias is also eliminated. This requires introduction of a target of zero transfer of non-financial costs to employees and users of privatised facilities , to set along side targets for value for money.

Citizens' dialogue on macroeconomic policy

A new policy framework needs more than capital controls and additional targets and indicators.. In particular, it needs to facilitate a citizens' dialogue about alternative macroeconomic policies. The ability of different interests to exercise 'voice' on macroeconomic policy is foreclosed not by the technical requirements but by fear of pre-emptive exercise of the 'exit' option by financial institutions. Their ability to exit rather than join in a dialogue is, of course, a result of the openness of capital markets. Ironically the openness of capital markets is conducive to an absence of openness in policy discussion, for fear that the wrong signals will be sent and the volatile ‘sentiment’ of capital markets will be disturbed. It is difficult to conduct a participatory consultation on when some of the key players have no stake in the outcome beyond the next few hours. A neglected argument for some form of capital controls is to ensure that financial institutions have more incentive to engage in discussions with other social interests in the country whose financial instruments they have purchased, and to prevent them from foreclosing discussion by a pre-emptive exit (Elson and Cagatay, 2000).

. An example of what might be aspired to at national level is provided by the Canadian Alternative Federal Budget exercise, in which a large number of Canadian civil society groups have joined together to produce an alternative budget. It incorporates an alternative financial policy, including different types of linkage between global, national and local levels of finance and budgeting(Loxley,1999).

The AFB was first drawn up in 1995 and since then it has become an annual exercise. The initial purpose of the exercise was to challenge the budgets of the federal government which were based on public sector downsizing in order to reduce the Canadian budget deficit from five percent of GDP to a target of three percent. Federal government debt and the high cost of servicing this debt were the factors underlying the federal budget deficit, which the government argued to be unsustainable.

The macroeconomic framework of the AFB reversed the government’s macroeconomic framework by arguing that the high cost of debt service was due to the financial policy pursued by the government through the Bank of Canada. The AFB accepted the importance of reducing the deficit but proposed a different route, arguing that reducing interest rates would be vital both for closing the deficit and a reduction in the rate of unemployment. The AFB recommended measures that would allow for an easier monetary policy in order to reduce interest rates, including a reintroduction of reserve requirements for banks and a requirement for the Bank of Canada to hold more federal government debt. The AFB also recommended some forms of capital control in order to reduce Canada's vulnerability to volatility in capital flows. These forms of capital control included a surtax on Canadian interest earnings on overseas bonds, promotion of the 'Tobin tax' on international financial transactions, and a requirement by financial institutions to invest a minimum amount of their assets in community and small business development.

On the expenditure side, the AFB stressed strengthening and restructuring of social programs via social investment funds in the areas of health, unemployment insurance, income security, child care, retirement income, post-secondary education and housing.. The AFB aimed to reduce male breadwinner bias by improving women's entitlements in areas such as child -care, unemployment insurance and pensions

Most of the funding (about 70 percent) for the AFB was projected to result from increased growth of the economy, while the remaining balance would come from a revamping of the Canadian tax system by raising taxes on corporations and wealthy individuals, while at the same time reducing them on low income earners. An example of such increased taxation on wealthy individuals was the introduction of a wealth transfer tax on transfers in excess of one million Canadian dollars. The AFB also promoted green taxation for protection of the environment. All the measures and proposals contained in the AFB combat the three biases elaborated above: deflationary bias, male breadwinner bias and commodification bias. Though the AFB remains a civil society exercise and has not been implemented, it provides a valuable benchmark against which the Canadian Federal Budget can be measured. It would be good to see a similar exercise in Europe.

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