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# Social Policy and Macroeconomic Performance

*Integrating "the Economic" and "the Social"*

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## Introduction

The quotation marks are placed around 'the economic' and 'the social' alert us to the fact that this is an abstract duality. People do not live their lives in two separate domains. The aspects of life that we label 'economic' and 'social' are intertwined. The policies we label 'economic' and 'social' each have ramifications for both the dimensions we label 'economic' and those we label 'social'. As Barbara Harriss-White points out in her contribution, 'social policy is economic policy'. But at the same time, as pointed out in Elson and Cagatay (2000), economic policy is social policy.

Nevertheless, the distinctions do relate to some real divisions and are grounded in the different rhythms and modalities of market-based capital accumulation (the commodity economy) on the one hand, and non-market-based social reproduction (the unpaid care economy), on the other. There are different institutional responsibilities for 'economic' policy and 'social' policy; different policy analysis communities; different interest groups lobbying. The standard neo-liberal approach overemphasized these differences, and assumed that each strand of policy could be pursued independently of the other. Moreover, social policy was seen as a residual, only required to deal with the widows and orphans, the lame and the sick.

The movement away from the standard neo-liberal approach, to incorporate more discussion of institutions, has been characterised by a rediscovery of the interactions between 'the economic' and 'the social' and a revalidation of 'the social' as having more than residual status. But this is mainly at the micro level, and only on terms that are compatible with microeconomic thinking, whether of the old-style or new 'improved' varieties. As Ben Fine argues in his contribution, concepts 'social capital' are part of the problem rather than part of the solution. They blur and obscure the tensions between capital accumulation and social reproduction, tensions in which the distinction between 'the economic' and 'the social' need to be grounded.

At the macro-level, however, 'the social' is still very much seen as an afterthought. Although there is now widespread recognition of the need to integrate macroeconomic management and 'social policy' –there is still a strong tendency to think this means continuing to design what are termed 'sound' macroeconomic policies with a focus on market-based criteria, an overriding emphasis on stabilizing the price level and reducing the role of the state, and then adding-on social policies in order to achieve socially desirable outcomes such as poverty reduction. This is how the World Bank's Comprehensive Development Framework operates. As shown in Elson and Cagatay (2000), the CDF does not explicitly consider macroeconomic policy at all. 'Prudent' fiscal and monetary polices are described as the 'essential backdrop' to the CDF and the specification of exactly what these are is treated as beyond discussion; similarly with the new IMF concern with social policy in the context of debt-relief initiatives. The emphasis is on adding on new sectoral policies to help those adversely affected, not to reconsider the design of macroeconomic policies and the organisation of the policy process. The new focus of the Bank and the Fund on participation in policy dialogue only extends to micro and sectoral policies.

An alternative approach to considering social policies as an afterthought to macroeconomic policies would start with the idea of mainstreaming social issues into macroeconomic policy. The idea of 'mainstreaming' is more fluid than 'adding-on'. It has been developed in the context of trying to change analysis, institutions and policies to promote gender equality and an improvement in the position of women. It has connotations of aiming to change and transform the dominant paradigms and the balance of socio-economic forces. In this context, it has the implication of the rethinking of macroeconomics and of the organization of macroeconomic policy processes in order to recognise the salience of social issues and social policy. Heterodox macroeconomics is a useful ingredient because it seeks to integrate distributional variables and it challenges the view that macroeconomic problems come from a deficiency of savings rather than from a deficiency of investment. But social policy has broader concerns, with non-monetary dimensions, so there is a need to go further.

## Economic Production and Social Reproduction

The starting point proposed here is to recognise we are dealing with a joint process of production of the means of life and use of these means to reproduce life itself, on a daily and intergenerational basis. Most analysis of economies privileges economic production- tries to measure it, increase it, optimise it. Social reproduction is taken for granted, treated as a bottomless well, rather like the traditional sector in the Lewis model. Feminist economics, and to a lesser extent, the human development approach, has challenged this exclusion, arguing that as well as the 'commodity economy', we should take account of the 'unpaid care economy' in which people produce services for their families, friends and neighbours on the basis of social obligation, altruism and reciprocity (e.g. Folbre 1994; 2001; UNDP 1995; 1999; UNIFEM 2000).

There are two reasons to take account of the unpaid care economy. The first is that the inputs of unpaid work and outputs of care are very important for human well-being. Too much unpaid work and too little care both jeopardise the possibility of living a 'good life'. The second is that though the 'unpaid care economy' is outside the production boundary, its operation has implications for what goes on inside the production boundary. Its operations affect the quantity and quality of labour supplied to production and the quantity and quality of goods demanded from production. Its operations affect the stability of the social framework in which market and state are embedded.

This interaction been analysed in a number of contexts relevant to development, with a particular emphasis on the gender relations that assign most of the responsibility for the supply of unpaid care to women. For instance, in the early 90s I examined the interaction in the context of structural adjustment, arguing that the design of structural adjustment implicitly assumes unlimited supplies of female labour, available to make good any shortfalls in provision of public sector non-tradable services (such as health, education, water, sanitation); and to increase production of exports, while at the same time, maintaining household food security and the social fabric of family and community networks (Elson 1991) Adjustment theory does not confront this implication because it appears to treat labour as a non-produced means of production, and all consumption as discretionary.

Gendered cultural norms about what is 'men's work' and 'women's work' mean that men's labour tends not to be reallocated to 'women's work' where there is a decrease in what is considered to be 'men's work' and an increase in what is considered to be 'women's work'. Instead, a more likely outcome is unemployment and underemployment for men, and overwork for women. Failure to take this into account in analysing adjustment results in extra burdens for women, and means that adjustment programmes are unlikely to be able to deliver the growth they promise:

Ignoring the implications of macro-economic changes for unpaid domestic labour inputs is tantamount to assuming that women's capacity to undertake extra work is infinitely elastic – able to stretch so as to make up for any shortfall in income and resources required for the production and maintenance of human resources. However, women's capacity for work is not infinitely elastic and breaking point may be reached. There may simply not be enough female labour time available to maintain the quality and quantity of human resources at its existing level. This may not have an immediate impact on the level and composition of gross national output, but in the longer run, deterioration in health, nutrition and education will have adverse impacts on output levels (Elson 1991: 179).

Further examples of analysis that takes account of unpaid care work can be found in the 1995 special issue of *World Development* on macroeconomics and gender. William Darity (1995) constructed a two sector model of a gender segregated low income agrarian economy, in which one sector produced crops for export and the other sector produced subsistence food and care for the family. The model was used to show how a devaluation of the currency, which raises the relative price of export cash crops, means extra demand for women's labour in the export sector and extra income for their husbands who control the sale of the crop, given the prevailing pattern of gender relations in both sectors. If women respond to this demand, through some combination of compensation, cooperation or coercion, output of food and of care is liable to fall under reasonable assumptions, with potentially adverse impact on heath and nutrition of women and children. On the other hand if women are able to resist the demand, the supply response of the export crop is muted, and the devaluation does not have to expected impact, a scenario explored by Warner and Campbell (2000) in the second special issue of *World Development* on gender and economics.

In contrast, Korkut Erturk and Nilufer Cagatay (1995) focused on the investment behaviour of firms and savings behaviour of households in industrialising economies, drawing upon empirical research on patterns of economic development to identify some 'stylised facts' about the degree of feminisation of the paid labour force and the extent of women's unpaid household work. They assumed that a rise in the feminisation of the labour force stimulates investment by making available a new pool of low cost and malleable labour; while a rise in the extent of women's unpaid household work is equivalent to an increase in savings because it reduces expenditure on marketed goods. The interaction of these two effects is examined in relation to recovery from economic crisis and recession, and it is concluded that recovery will be dampened if the positive impact of feminisation of the paid labour force on investment is weaker than the positive impact of an intensification of women's household work on savings.

In the same volume, Walters (1995) reconsidered growth theory, in the light of the conceptualisation of labour as an input produced in the 'unpaid care economy' (which he called the reproductive sector). He identified Harrod's theory of growth as the most fruitful for exploring potential imbalances between the productive and reproductive sectors.

These four articles all pitch their arguments at a high level of abstraction, but they are important as heuristic devices which begin the task of showing how gender-sensitive variables, which capture reproduction as well as production, and power as well as choice, can be incorporated into the analysis of growth and structural change.

As more comprehensive studies of time use become available for developing countries it will be possible to start exploring the inter connection between production and unpaid care empirically. Some examples, which point the way can be found in the special issue of *World Development* on Growth, Trade, Finance and Gender Inequality (Grown et al. 2000). Fontana and Wood (2000) present a CGE model that includes the unpaid care economy (labelled 'social reproduction'). The model is calibrated for Bangladesh and is used to explore different trade policy regimes. Lim (2000) examines the effects of the East Asian financial crisis on employment in the Philippines and though the data on paid work is much richer than on unpaid work, is able to consider some of the interactions between the two in the aftermath of the crisis.

This kind of analysis brings together what has generally been thought of as ' the economy' with what has often been thought of as the domain of the 'social', and is an example of what I mean by mainstreaming the social in macroeconomic analysis. It overcomes to some degree the dichotomisation between 'economic analysis' (largely pertaining to monetised aspects of life) and 'social analysis' (largely pertaining to non-monetised aspects of life). But it does not dissolve the difference, and indeed tension, between these two aspects of life, unlike, say, the 'new household economics'.

## Social Biases in Macroeconomic Policy

In the context of the holistic view of economic and social processes described above, Elson and Cagatay, (2000), argue that there are three important social biases in much current macroeconomic policy: deflationary bias, male breadwinner bias and commodification ( or privatisation) bias. If social policy is to be integrated with economic policy, these biases must be overcome.

### Deflationary bias

Liberalized financial markets have induced governments to adopt policies primarily aimed at maintaining their 'credibility' in financial markets – such as high interest rates, tight monetary policies, and fiscal restraint. Eatwell (1996) notes that interest rates in the 1990s have been at a historic high around the world. Felix (1995) shows that investment rates and growth rates have fallen over the period of financial liberalization, primarily due to the types of macro economic policies governments are required to adopt in order to attract and retain short term capital. The result is a 'deflationary bias in macroeconomic policy', which prevents governments dealing effectively with recession and leads to high rates of unemployment and underemployment.

To make this claim is to run the risk of being cast in the role of an irresponsible 'macro populist' advocating unsustainable and inefficient fiscal and monetary policies. But we have to insist that there are more than two alternatives – we do not have only the choice between IMF –approved sound finance and hyperinflation and falling per capita income. The viable alternatives depend on the ensemble of social as well as economic forces-what Lance Taylor (1991) has called the social matrix.

Moreover, while there are indeed aggregate real resource constraints on the achievement of social goals, these real constraints are not directly the object of macroeconomic policies. Macroeconomic policies address financial constraints-and financial constraints depend on the pattern of ownership and control of financial resources and the willingness of different groups of people to pay taxes and to buy government bonds. They are socially variable and socially malleable constraints. Macroeconomic policies, which are 'sound' in the sense of balancing the budget, accepting the current balance of financial power, can be quite 'unsound' in the sense of exacerbating real resource constraints by destroying human capabilities as people are priced out of the market. Much of the feminist critique of neo-liberal macroeconomic policies has made this point (see for instance contributions to Cagatay, Elson and Grown, eds, (1995), and has shown the ways in which poor women in particular bear these burdens. This destruction of real resources may not have immediate financial repercussions for the government budget, or the repercussions are roundabout and the connections not obvious, and so go unnoticed by economic policy makers.

Macropopulist policies make the mistake of trying to circumvent the financial constraints by printing more money while leaving the structure of financial power intact. In common with neo-liberals, macropopulists do nothing to educate people about the social content of macroeconomic policies- about which groups are currently strong enough to set parameters and which groups are forced to vary their activities, and to adjust to the parameters set by others; about whose contracts will be honoured and whose contracts will be broken by particular configurations of macroeconomic policy; about whose entitlements will be upheld and whose will be destroyed. The social biases in macroeconomic policy remain obscure.

Deflationary bias is a bias that gives too high a priority to low inflation, low public debt, low public expenditure, low taxation and low budget deficits; and too low a priority to full employment, high public investment and realising the full potential for improvements in the availability of goods and services. It is now deeply entrenched in the institutional framework that governs macroeconomic policy in many countries. It is constituted in a variety of ways: central banks that have asymmetrical targets, so that they aim to keep inflation below a target level, but not above a target level; balanced budget legislation that constrains a government to cut public expenditure when the economic cycle takes a downturn; so-called 'stability' frameworks that incorporate rigid rules about ratios of budget deficits to GNP and ratios of public debt to GNP, regardless of the stage of the economic cycle, constraining governments to cut public expenditure when the economic cycle takes a downturn; rules about governments borrowing only to invest that allow only for investment in physical capital and disallow investment in human capacities.

These rules deepen global recession rather than aiding recovery. They undermine the livelihoods of men and women and throw people back into the non-market economy. In the formal sector of the market economy, there is often a perception that men's jobs are more important, and women should be first to be dismissed. Women's unemployment is thus often higher than that of men, while at the same time they have less access to social