

# WHY MACROECONOMIC POLICY MATTERS FOR GENDER EQUALITY

## SUMMARY

Macroeconomic policy, including fiscal and monetary policy, is often thought of as gender-neutral. But economic policy choices affect women and men differently because of their different positions in the economy, both market (paid) and non-market (unpaid). For instance, budget cuts that reduce social spending may increase the demands on women's unpaid household labour, while trade liberalization may negatively affect women's employment in contexts where they are over-represented in import-competing sectors, such as agricultural food crops. Yet, macroeconomic policies to date have paid scant attention to these issues and have therefore not been conducive to the achievement of gender equality. Focusing on goals, measurement and policy instruments, this brief lays out the key problems with current macroeconomic policies and provides building blocks for an alternative macroeconomic agenda that is rights-based and gender-responsive.

## Problems with current macroeconomic policies

Macroeconomic policy deals with economic aggregates, typically without any reference to gender. It is therefore often thought to be gender-neutral. But broad-based economic policies—such as fiscal, monetary or trade policies—have different impacts on women and men. They matter for gender equality because they shape the overall economic environment for realizing women's rights by affecting opportunities for paid employment, resources for policies aimed at reducing inequalities, and the demand for women's unpaid labour. Macroeconomic decisions may also bring about economic crises, with women and men bearing different costs of negative shocks (see Box 1).

Current macroeconomic policies have failed to create an enabling environment for the realization of women's rights. There are several reasons for this.

### *Focus on a narrow set of goals*

Macroeconomic policy typically does not take into account economic and social rights, distributive outcomes or gender equality. Indeed, they typically focus on a narrow set of goals, such as raising economic growth rates or reducing inflation to extremely low levels. These measures are not necessarily linked to more fundamental objectives such as human development, well-being and the enjoyment of rights. Economic growth is often assumed to automatically reduce gender inequality, but evidence shows that faster growth in itself will not achieve this.<sup>1</sup>

In the majority of countries, monetary policies almost exclusively focus on keeping inflation very low, often by raising

### BOX 1

#### Crisis, austerity and gender

Although the 2008 global financial crisis originated in financial markets, one of its long-term impacts has been on public budgets.<sup>2</sup> In many developed countries, governments used public funds to bail out the financial sector. Despite rising debt levels and declines in gross domestic product (GDP), the initial policy response to the crisis was stimulus spending. However, by 2010, the combination of financial rescue packages and stimulus spending, along with falling revenues from taxation due to economic slowdown, led to a push for drastic cuts in social transfers, such as benefits for families with children, and social services in many countries. Women are likely to feel the impact of these cuts most acutely because they are over-represented among public sector front-line workers; because they depend more than men on public transfers and services; and because the burden of providing care when public support is reduced falls disproportionately on women.

interest rates to keep prices from increasing.<sup>3</sup> However, high interest rates also slow economic activity and lower the demand for labour by making credit more expensive and less accessible. This narrow approach can increase gender inequalities—for example, when women are more likely to lose their jobs than men if the economy slows in response to monetary policy choices or when women work in sectors that are more sensitive to reductions in domestic spending.<sup>4</sup>

## *Lack of consideration for unpaid care and domestic work*

Time spent caring for others—doing household tasks, for example, or carrying water—is not included in the calculation of GDP or other macroeconomic indicators, despite its enormous value (see Figure 1). Women do much of this work. The fact that this labour is unpaid does not mean that it comes without costs—and most of these costs are borne by women and girls in terms of lost opportunities and foregone earnings. Because macroeconomic policies do not account for these costs, they reinforce the undervaluation and marginalization of women's work.<sup>5</sup>

Ignoring unpaid work can also bias policy priorities. For example, evaluations of the benefits of public policy measures that reduce unpaid work—such as installing water taps or improving access to childcare services—will be inadequate if they do not consider the costs to women. Not accounting for these costs may also give a false sense of efficiency gains: the 'savings' made from the retrenchment of public services may be considered an improvement when the cost of shifting the burden and thus adding to unpaid household work remains hidden and invisible.

## *Bias in the classification of private and public investments*

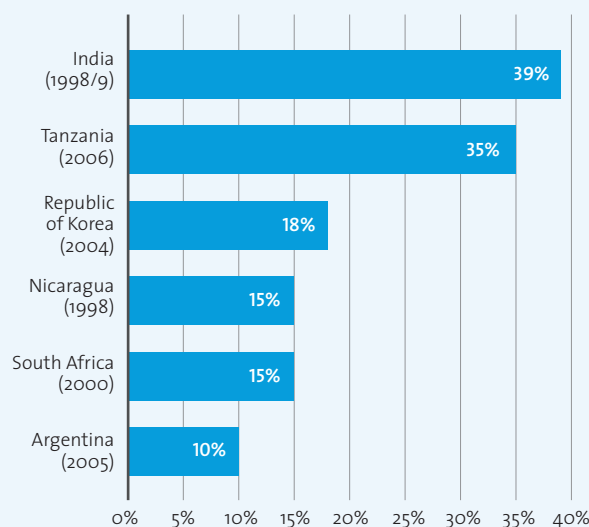
Other macroeconomic measurements are subject to similar conceptual problems, with important consequences for policy. Most public and private spending on children, for example, is classified as consumption expenditure. However, a strong case can be made that these expenditures represent an investment in future human capacities and should be accounted for separately from consumption expenditure.<sup>6</sup> Unpaid childcare activities represent a similar investment but are not counted at all in macroeconomic statistics. Therefore, total investment is underestimated and certain forms of investment are undervalued in macroeconomic analysis. This can bias macroeconomic policy decisions—for example, when cuts are made to public social expenditures based on the assumption that these are 'consumption' items that do not yield future benefits.

## *Failure to mobilize and direct sufficient resources to finance policies for gender equality*

The resources available to governments for implementing policies to advance gender equality and other social goals are not fixed but are determined, in part, by macroeconomic policies, including tax policies, decisions over deficit spending and the management of debt. The policy stances adopted by many countries in recent decades, including tax cuts and trade liberalization, have tended to reduce public revenues relative to the size of the economy, meaning that fewer resources are available to finance government outlays. Given the reduction in government revenues, efforts to control budget deficits have emphasized reductions in spending, with cuts often disproportionately affecting women.

FIGURE 1

### Estimates of the value of unpaid care work as a percentage of GDP



Source: Budlender 2008. Estimates for Argentina are based on Buenos Aires only.

## *Lack of participation, transparency and accountability*

Macroeconomic policy formulation is typically seen as a technocratic process, carried out with little or no direct participation of the different social groups affected. Consider the example of monetary policy. Women remain under-represented in leadership and decision-making positions of central banks. In 2015, they held governor or equivalent positions in just a handful of countries.<sup>7</sup> More importantly, the democratic accountability of central banks is extremely limited. Economic information on government priorities, as reflected in budget processes, is often not available or is presented in a form that is not useful for evaluating policy choices. And macroeconomic decision-making bodies rarely invite meaningful participation by civil society, including women's rights organizations.

## *Rethinking macroeconomic policy for gender equality*

Reformulating the approach to macroeconomics to support gender equality requires a fundamental rethink of policy priorities as well as of the processes through which they are defined.

## *Raising additional resources to achieve gender equality goals*

Tax policy, government expenditure and debt management directly affect the resources available to promote gender equality and realize rights. Many countries have the ability to mobilize additional public resources. A study of eight

countries—Côte d’Ivoire, Egypt, Jordan, Kenya, Malawi, Senegal, Sri Lanka and Uganda—found that domestic tax reform, including an expansion of consumption and income taxes, had been essential to fill the gap left by reductions in other revenue sources such as trade taxes.<sup>8</sup> The Plurinational State of Bolivia and Botswana have used revenues generated from natural resource extraction to finance their social protection systems.<sup>9</sup>

### *Creating gender-responsive macroeconomic policies*

As part of the commitment to gender equality, macroeconomic policy-making should incorporate distributive impact analyses. This would allow macroeconomic policies to be evaluated in terms of their effects on women and men. Specifically, there is a need to analyse the effects of public spending, tax policy and monetary policy on gender equality (see Box 2). When gender inequalities are uncovered, governments must take steps to correct them.

Other policy areas with macro-level impacts, such as the negotiation of trade agreements, also need to be subject to greater scrutiny. In many countries, trade liberalization has led to a reduction in government revenues, with implications for policies to support gender equality. Trade agreements between countries also often have provisions that limit the policies that individual governments can adopt, such as measures that aim to promote and support domestic productive activities and investment. Such agreements frequently have different consequences for women’s and men’s employment, yet issues of gender equality are rarely considered.

### *Supporting employment creation and gender equality through monetary policy*

As noted above, monetary policy often fails to consider trade-offs between reducing inflation to very low levels and supporting new employment opportunities, with consequences for women’s paid work. Therefore, it should incorporate additional targets, such as real productive activity, employment or incomes. In addition, central banks can use their regulatory power to channel credit to uses that support the realization of rights and promote gender equality. Policies and regulations can also encourage credit to be extended to improve housing, stimulate job-creating investments or promote access to loans for self-employed workers in informal activities, many of whom are women.

### *Reducing vulnerabilities by promoting macroeconomic stability*

Macroeconomic policy should aim to reduce vulnerabilities, including those that women face, by taking steps to minimize the systemic risks that arise from periodic economic crises, triggered among other factors by the massive outflow of short-term financial resources.<sup>10</sup> Many countries—including

Brazil, China, Colombia, Chile, India and Malaysia—have used capital controls to reduce this risk and to retain a stronger influence over domestic policy.<sup>11</sup> At the national level, macroprudential policies can prevent the financial system from becoming dangerously fragile.<sup>12</sup> Examples include: making the capital requirements of banks dependent on economic conditions, so that capital requirements increase when credit expands too rapidly; and limiting debt-financed acquisition of financial assets.

#### **BOX 2**

#### **Gender responsive budgeting**

Gender responsive budgeting involves analysing the allocation of public spending, the tax system and public service delivery to identify gender-specific impacts of budget policy.<sup>13</sup> A comprehensive approach includes sex-disaggregated analysis of the beneficiaries of distinct categories of government spending, the incidence of tax policy and the beneficiaries of public service delivery. Ideally, a gender analysis of national budgets should also examine fiscal policy at the aggregate level: total spending, total revenues and deficit financing.

The Government of Nepal, for example, introduced gender responsive budgeting in fiscal year 2007/2008 through gender audits of line ministries, gender assessments, awareness raising and the establishment of a Gender Responsive Budget Committee. The Ministry of Finance has developed a budget tracking system to measure the gender responsiveness of public spending and donor aid along five indicators. As a result, gender responsive budget allocations in Nepal have increased steadily since 2007, with a cumulative positive change from 11 per cent to almost 22 per cent in 2014. This has contributed to better public services for women and girls.

## **Using human rights to transform macroeconomic policy**

A human rights-based approach can guide macroeconomic policy choices that support gender equality by:<sup>14</sup>

- Providing alternatives to GDP growth, low inflation and static efficiency as the primary goals of economic policies.
- Promoting women’s economic rights—and gender equality more broadly—because they are human rights rather than just because of gains in efficiency or productivity, or positive returns to investment.
- Providing a set of ethical principles for formulating and evaluating economic policies, which emphasize the obligations of governments, and are derived from international agreements.

- Linking the obligations of governments to a set of national and international procedures to hold governments to account.
- Requiring a democratic and participatory approach to economic governance.

In addition to these broad contributions, the human rights-based approach sets forth a number of principles and obligations that provide a framework for assessing and evaluating macroeconomic policy:

**Non-discrimination and equality.** The human rights framework prohibits discrimination and unequal outcomes along multiple dimensions—including gender inequalities. A consideration of distributive outcomes is hence essential, and macroeconomic policies need to be evaluated in terms of their outcomes with regard to the enjoyment of rights. Tax policies, for example, should be evaluated to identify and remove unequal burdens on women relative to men.

**Minimum essential levels.** Governments have an obligation to ensure the satisfaction of minimum essential levels of each economic and social right for all. For example, individuals should not be deprived of essential food, basic shelter or the most fundamental forms of education. Macroeconomic policies need to be formulated in a way that ensures these minimums are met. Since women and girls experience heightened vulnerability and a greater risk of poverty, ensuring minimum essential levels will improve gender equality.

**Progressive realization and non-retrogression.** The framework for economic and social rights stresses the progressive realization of rights over time as a measure of economic and social progress, not economic growth as captured by GDP. Once a given level of fulfilment has been achieved, policy choices should guard against eroding those rights over time.

**Maximum available resources.** Government should take steps, to the maximum of its available resources, to realize economic and social rights over time.<sup>15</sup> This would involve, for example, reprioritizing budget expenditures towards social policies that support the fulfilment of human rights in ways that reduce inequalities between women and men.

**Accountability, transparency and participation.** A human rights-based approach to macroeconomic policy requires that there is meaningful participation, that policy processes are transparent and that governments are held accountable for their policy decisions. This requires efforts to strengthen women's voice in macroeconomic policy-making, increase their presence in key decision-making roles and ensure that women's organizations and associations are able to hold policy makers to account.

A new approach to macroeconomic policy, one that seriously incorporates issues of gender equality, is central to promoting sustainable and gender-responsive development. The application of these principles provides an avenue for transforming macroeconomic policy-making to make it more accountable, equitable and focused on meaningful outcomes in people's lives.

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## RECOMMENDATIONS

- **Government spending, taxation and monetary policy should be evaluated with regard to their effects on gender equality. When gender inequalities are uncovered, governments should take steps to correct these imbalances**

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