The Social Content of Macroeconomic Policies

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Summary. — There is now widespread recognition of the need to integrate macroeconomic policy and social policy, but the mainstream approach is one of adding on social policy. We argue for a transformatory approach which would mainstream gender-equitable social policy within macroeconomic policy. We identify three interlinked biases which prevent this from happening: deflationary bias, “male breadwinner bias” and commodification bias. We illustrate a transformatory approach with the example of the Canadian Alternative Federal Budget. We argue that a social dialogue is necessary for the formulation of such alternatives. © 2000 Published by Elsevier Science Ltd. All rights reserved.

Key words — macroeconomic policy, social policy, gender inequality, Comprehensive Development Framework, participation

1. INTRODUCTION

One of the dominant developments of the last decades of the 20th century has been the increased speed and influence of globalization. Despite many gains from this process for some regions, globalization has intensified social exclusion and the marginalization of the poor and other groups. The social dislocation caused by the East Asian crisis has prompted a new interest in what are termed “social issues,” “social consequences of economic crisis” and “principles of social policy” in ways that have not been a part of the policy discourse since the critiques of structural adjustment and macroeconomic stabilization policies undertaken widely in the early 1980s.

“Social issues” such as labor standards, reduction of poverty, and environmental regeneration are now part of policy dialogues on macroeconomics, trade policies and debt relief. 1 Although there is now widespread recognition of the need to integrate macroeconomic management and “social policies,” 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 social policies in order to achieve socially desirable outcomes such as poverty reduction. 2

An alternative approach to considering social policies as an afterthought to macroeconomic policies would start with the premise that all macroeconomic policies are enacted within a certain set of distributive relations and

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1 The views expressed reflect the views of the authors and not necessarily the views of the institutions with which they are affiliated. We should like to thank Caren Grown and members of the International Working Group on Engendering Macroeconomics and International economics for their help in developing the ideas expressed in this paper. We have benefited from discussions with John Loxley and participants of the UNDP-UNIFEM workshop on “Pro-poor, Gender- and Environment-sensitive Budgets” held in New York in June 1999. We have also benefited from the comments of two referees in clarifying our arguments. Hande Keklik provided excellent research assistance.
institutional structures; and that all macroeconomic policies entail a variety of social outcomes which need to be made explicit. According to such an outlook, “soundness” of macroeconomic policies would be judged not on market-based criteria per se, but in terms of whether they ultimately succeed in bringing societies closer to achieving social justice. Thus, desired social outcomes such as distributive justice, equity, provisioning of needs for all, freedom from poverty and discrimination, social inclusion, development of human capabilities become the ultimate goals of policymaking, including macroeconomic policymaking.

The first approach we call the “adding on social policy approach” and the second one we call the “transformatory approach” to macroeconomics. The distinction between the two approaches is that the second one argues that social policy needs to be mainstreamed into macroeconomic analysis by means of a rethinking of macroeconomics. This rethinking cannot simply consist of new technical exercises, which can present us with ready-made formulae applicable to every context. Democratizing the process of macroeconomic policy making is a crucial element of the transformatory approach. There are clearly parallels with mainstreaming gender into macroeconomics.

The purpose of this paper is to explore the relationship between the “social” and the “macroeconomic,” in order to contribute to the development of a transformatory approach. In Section 2, we discuss some recent attempts by the World Bank and the IMF to bring the “social” and the “macroeconomic” together. In Section 3, we discuss some contributions of the human development approach to the critique of mainstream macroeconomics; in particular the identification of “anti-deficit radicalism” as an approach with detrimental consequences for human development. We argue that anti-deficit radicalism leads to entitlement failure at the macroeconomic level. In Section 4, we identify three widespread biases embedded within mainstream macroeconomic approaches: deflationary bias, male breadwinner bias and commodification bias. We locate them within the context of economies increasingly dominated by financial markets and rentier interests. These biases, we argue, prevent the formulation of gender-equitable people-centered macroeconomic policies. In Section 5, we suggest a policy matrix relevant for thinking through the macroeconomics of people-centered development.

We also discuss the example of a recent initiative in Canada to promote what we call budgets for social justice. We argue that the Canadian Alternative Federal Budget (AFB) exercise is an example of a transformatory way of bringing the “macroeconomic” and the “social” together. It suggests policies to rectify the three biases that we identify.

We also point out areas where future research is required to improve the capacity to transform fiscal and monetary policy in ways that promote social justice, including gender justice, through changing our understanding of how fiscal and monetary policy operate, taking into account the unpaid domestic economy that centers on care as well as the market-based economy that centers on commodities.

2. THE SEARCH FOR A “POST-WASHINGTON-CONSENSUS”: LINKING THE SOCIAL AND ECONOMIC

The consensus in Washington DC that development is best promoted by neoliberal policies has given way to the search for a new development paradigm in which the social dimensions of development are more closely integrated with the economic dimensions of development (Stiglitz, 1998).

(a) The Comprehensive Development Framework

In operational terms, the result was a new Comprehensive Development Framework (CDF) proposed in January 1999 by the President of the World Bank, James Wolfensohn. He introduced it in these terms:

when I think of a development framework for a country and for regions, I think of a balance sheet with two sides. On the left is the macroeconomic presentation including the Article IV reports for the IMF, the National Income Accounts, the Balance of Payments and Trade Statistics, and all the other financial and economic analysis which are at the core of our current appraisal system... There is however, a clear need for a second side which reflects more adequately an analytical framework that presents structural, social and human aspects. It must go beyond the familiar statistics of infant and maternal mortality, unemployment and children in school, to address fundamental long-term issues of the structures, scope and substance of societal development (Wolfensohn, 1999, pp. 4–5).

The right-hand side of the balance sheet will be addressed by the CDF, which is a policy co-
<table>
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<tr>
<th>THE ACTIVITIES OF PARTNERS IN THE DEVELOPMENT PROCESS</th>
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<th>Human</th>
<th>Physical</th>
<th>Specific Strategies</th>
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Figure 1. Comprehensive Development Framework.
## Comprehensive Development Framework - Bolivia

### Poverty Alleviation

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<th>Opportunity</th>
<th>Equity</th>
<th>Institutionality</th>
<th>Dignity</th>
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<td>Higher Rates of Sustainable Economic Growth</td>
<td>Improve Income Distribution and Inclusion</td>
<td>Governance for Opportunity and Equity</td>
<td>Remove Itself from Coca Drug Trafficking Circuit</td>
</tr>
</tbody>
</table>

### Framework Details

- **World Bank Group**
  - Transport
  - Rural Infrastructure
  - Water and Sanitation
  - Municipal Development
  - El Nino
- **IDB**
  - Transport
  - Power
  - Urban Development
  - Housing
- **Other Donors**
  - CAF Roads
  - Korea Roads
  - Private Investment Development
  - Sweden Industrial Cooperation
  - USAID Micro-finance
  - CAF Financial System
  - Sweden Rural Telecommunications And Energy
  - United Nations Development Program (UNDP)
  - Netherlands Rural Telecommunications And Energy
  - KfW Power
  - UNDP Ecological Tourism And Biodiversity
  - OECD Rural Water And Sanitation
  - UNDP Economic Growth
  - USAID Health

### Figure 2. Comprehensive development framework—Bolivia.
ordination matrix, and is shown in Figure 1. The horizontal axis of the matrix lists what the World Bank considers to be pre-requisites for sustainable growth and poverty alleviation, and the vertical axis lists what the World Bank considers to be the key “players” in the development process.

It is envisaged that the empty boxes in the matrix will be filled by information about who is doing what to promote development in a particular country. Behind each cell in the matrix will be annexes with detailed listings of long- and short-term goals, programs, costs and progress. It is suggested that the CDF and the Annexes could all be put on an interactive internet site and that the process of producing them should be participatory and transparent. This is a constructive step toward the formulation of people-centered sectoral policies.

The Bank’s own attempt to be participatory is exemplified by the comments it has solicited on the CDF from a wide range of development practitioners. Much of the subsequent comment has focused on who is envisaged as the overall co-ordinator of the activities listed in the matrix and on what terms the various players can participate, often summed up in the phrase “who will own the CDF?” President Wolfensohn has argued that “there is no way that the World Bank should be seen as assuming the role of co-ordinator of all programs in the matrix” (p. 22) and “ultimately, the matrix is a tool for the governments and people of the countries we serve. It is they who must own the programs, not us, and it is they who must set the pace” (p. 23).

Figure 2 reproduces the illustrative matrix for Bolivia which was included by the Bank as an example of how the CDF might be applied in a particular country. It is noteworthy that the government is not even listed as a “player” in the matrix for Bolivia.8 Thus the question of ownership is somewhat unresolved at least in this example.

A second important issue from the perspective of this paper is “where does gender fit in?”9 This is a pertinent question since the general CDF matrix does not specifically mention men, women or gender, while the illustrative matrix for Bolivia does mention “gender” but confines it to the column on “social services for gender and excluded groups.”10 Subsequently, the World Bank has stated that “Gender, for example, is central to all aspects of the CDF” (World Bank, 2000, p. 21). But it is not yet clear how this will be operationalized.

A third question is how the CDF relates to macroeconomic policy. It is noteworthy that macroeconomic aspects of development are described as one side of the balance sheet, and social, structural and human aspects as the other side with the claim that what is key is that the two parts must be considered together (Wolfensohn, 1999). But, there is no indication in the CDF as to how this will be brought about. There is simply the statement that

A wrong step on the macro economic side can have direct consequences for the structural, social and human dimension. In addition, profligate and unbridled spending without regard to resource constraints and fiscal and monetary policy can also have dire consequences.

Subsequently, prudent fiscal and monetary policies are described as the “essential backdrop” to the CDF (World Bank, 2000, p. 21). The distinct impression is left that macroeconomic policy is the responsibility of the International Monetary Fund (IMF) and is a separate domain, which sets the parameters to which the CDF has to accommodate.

(b) Good practice in social policy

The World Bank’s paper on “Good Practice in Social Policy” also addresses the interrelation between macroeconomic policies and the social dimensions of development.11 It reiterates the importance of “prudent” macroeconomic policies, but argues for two principles to guide restrictive macroeconomic policies:

The first involves taking into account the social impact of contraction in the design of the short-run macroeconomic response, even if this lengthens the transition period back to the normal growth path. The second pillar is that, when restrictive macroeconomic policies are needed, it is important to adjust the composition of fiscal expenditure and revenue so as to protect the people who are worst off (World Bank, 1999, p. 6).

The rest of the document focuses on safety nets, education, health, labor markets, information and institutions. Although there is much reference to households and communities, there is no systematic analysis of the way in which the principles of social policy need to take into account the different (and
disadvantaged) position of women in comparison to men; and to take into account the unpaid work of social reproduction.  

(c) Debt relief initiatives and the IMF

The IMF has also been paying more attention to the links between the social and economic dimensions of development, particularly in the context of debt relief initiatives for the Highly Indebted Poor Countries (HIPC), and has agreed that it will work with the World Bank in preparing explicit ex-ante assessments of the expected effects of its programs on the poor (IMF, 1998, IMF/World Bank, 1999). It does not appear, however, that these will be participatory assessments in which different groups in society can put forward their views, suggestions, and perceptions for discussion. Rather Bank and Fund staff will work together in five or six low-income countries as pilot cases, with the “country authorities.” The Fund makes a sharp distinction between “the governing authorities” of a country and the public in that country (IMF, 1998): “The first priority of the Fund is to strengthen the authorities’ ownership of the program” (p. 6) and it is clear that for the Fund the key players are “the heads of the authorities economic team” i.e. the Minister of Finance and the Governor of the Central Bank. The authorities’ ownership of the program is distinguished from a broad national consensus on reform:

the task of building a national consensus for reform is first and foremost the responsibility of the national authorities. The authorities’ own efforts to explain the program to the public provide the most direct means of developing such a consensus and can, at the same time, illustrate the authorities own commitment to the program (p. 6).

All this sounds very much like the IMF selling the program to the Minister of Finance and Governor of the Central Bank who in turn sell it to the rest of the country. The assessment of the likely social impact of the program is described in purely in technocratic terms: “significantly advancing assessments of the effects of programs on the poor ..... will also require analyzing household survey data” (p. 9). There is no mention of participatory assessment, much less broad social dialogue about macroeconomic policy.

(d) Macroeconomic policy, growth and poverty

The IMF and the World Bank pose the issue in terms of the social impact of macroeconomic policy rather than the social content of macroeconomic policy. That is, they do not inquire about the balance of social power that underpins a particular macroeconomic policy, and which shapes the choice of policy instruments and timeframe, for instance, the choice of whether to reduce a budget deficit by raising taxes or cutting expenditure. Rather than looking at the balance of social power, they look only at the impact of macroeconomic policy on the rate of growth of GNP and the implications of growth for poverty.

The IMF takes the view that substantial reduction in poverty ratio targets can only be achieved if per-capita real incomes rise sufficiently, as it is infeasible to achieve more than a fraction of this through income redistribution within low-income countries. Ambitious social sector targets in areas such as education and health will generally require substantial increases in real levels of public expenditures. These also cannot be achieved unless the government revenue base rises sufficiently through higher per capita incomes (IMF, 1999, p. 3).

The immediate target is growth and this, it is argued requires macroeconomic stability.

The connection between “sound” macroeconomic policies and improving the position of the poor is further spelled out in Gupta, Clements, McDonald and Schiller (1998). It is argued that low inflation and realistic exchange rates benefit the poor, while high inflation hampers growth, and the poor are unable to protect their consumption levels. Overvalued exchange rates harm the living standards of the rural poor who depend upon agricultural exports. From this point of view, macroeconomic policies need to be designed to “limit the governments access to bank credit while ensuring that the private sector receives an adequate share of total credit” (p. 2) and to be complemented by structural reforms that provide incentives for competition and private initiative. It is evident that from this perspective public expenditure “crowds out” rather than “crowds in” private initiative. It is recognized that “some reforms that are designed to achieve macroeconomic stability and remove impediments to long-term sustainable growth may hurt some of the poor in the short term” but this can be dealt with by “temporary social safety nets to transfer income or protect con-
sumption” (p. 3). There is no mention of gender differences in social power in this analysis, nor of the organization of social reproduction.

There are several other problems with this type of analysis of the relationship between growth and achievement of social goals such as poverty reduction:

(i) While growth is an important prerequisite for elimination of poverty, it is not a sufficient condition (UNDP, 1998a). The nature of growth and how a society translates the fruits of growth into increased well-being of its citizens is also critical since the fruits of growth do not trickle-down automatically. This can result from growth that is accompanied by rising inequalities, as seems to be the case in the recent decades.

(ii) Unequal social relations can themselves hamper the achievement of sustainable and high rates of growth. One example is the way in which gender inequality in education and asset ownership patterns can hinder growth (Hill & King, 1995; Klasen, 1999). Indeed, the achievement of a positive growth path depends on policies that fundamentally enhance human capabilities of large segments of the population, especially of poor women. Macroeconomic policies, therefore, cannot be “sound” unless they address social justice concerns in a fundamental way.

(iii) The IMF line of analysis shows great confidence in the speedy restoration of a sustainable long-run growth path. But country experiences with respect to crises are heterogeneous. While some countries may experience short-lived macroeconomic crises, others suffer from prolonged recessions with “lost decades for development.” In such cases temporary social safety nets cannot address problems of poverty and inequality. 14

The whole discourse of both the Bank and the Fund thus continues to envisage two separate domains—the macroeconomic and the social. What is new is the idea that the IMF should make a social impact assessment of its policies. The discourse contrasts “sound” policies with “profligate and unbridled spending,” implicitly casting critics in the role of advocates for “unsound” policies. Alternative analyses of economic policy open up the issue of what is to count as “sound,” and why there should be an open dialogue among an array of social partners around macroeconomic policy, rather than “ownership by the authorities” of an already given set of macroeconomic interventions. Thus there is no room for radical reformulation of macroeconomic policies as a result of a broad-based social dialogue which would aim at macroeconomic policy formulation in light of the social content of such policies.

3. FINANCIAL CONSERVATISM, ANTI-DEFICIT RADICALISM AND ENTITLEMENT FAILURE

The World Bank and especially IMF documents referred to above construct a discourse in which the characteristics of a “sound” macroeconomic policy are regarded as obvious and not requiring discussion. 15 A more nuanced discussion of macroeconomic policy from a human development perspective is provided by Amartya Sen (1998) who distinguishes between “financial conservatism” and “anti-deficit radicalism.” By financial conservatism he means a perspective that attaches great importance to price stability and believes that the root of all high inflation is a financial deficit but which does not call for the elimination of inflation irrespective of what else might have to be sacrificed to achieve it. Anti-deficit radicalism, on the other hand aims at zero inflation and argues that budget deficits must be eliminated whatever the cost. Sen allows that there is empirical evidence to support a degree of financial conservatism from studies that show that high inflation (above 40% per year) has a negative impact on growth rates, and accepts that several instances of moderate inflation (20–40% per year) have also had a negative impact on growth rates. He notes, however, that there is no clear evidence of the negative growth effects of low inflation (less than 15–20% annually); and he draws attention to the negative impacts of a near zero inflation target on the rate of employment. Sen’s main conclusion is that a concern for price stability and avoidance of high inflation (financial conservatism) does not rule out the expansion of public provision of health care, education and social security; and a concern for deficit reduction does not justify user fees for public services, irrespective of the effects of such fees on the well-being and freedom of the entire population, and more especially the effects on the poor. “There would, in general, also be a case for giving the interests of the
worse-off people the priority that social justice may demand” (Sen, 1998, p. 739). An implication of Sen’s argument is that there is not just one set of targets and policies that constitute a “sound” approach to macroeconomics—the “soundness” of the macroeconomic policy has to be judged from the point of view of social justice.

There has been increasing talk about a rights-based approach to development, but this has not been translated into any precepts for macroeconomic policy. One way to make a link between economic policies, human rights and social justice is through the concepts of entitlement and entitlement failure (Elson & Gideon, 1999). These concepts were developed by Amartya Sen as ways of showing that famine is often the result of socioeconomic failure in the organization of distribution rather than natural resource failure in the process of production. But they are capable of wider application. An entitlement enables a person to establish command over resources. It was defined by Dreze and Sen in their work on hunger as the set of alternative bundles of resources that can be acquired through the use of the various legal channels of acquirement open to that person (Dreze & Sen, 1989, p. 23). It is determined by a person’s endowment of ownership rights over productive resources, and the way they can use these rights through production, exchange both market based exchange and nonmarket exchange or exercise of claims for transfer of resources through the state tax and benefit system. There is entitlement failure when a person cannot establish sufficient command over resources for an adequate standard of living, (and thus their human rights are violated).

Sen used the concept of entitlement failure to analyze micro-level failures—such as the inability of landless laborers to get a high enough price for their labor to cover the costs of food, especially when food prices were rising due to drought or flood. But the concept of entitlement failure can also be applied at the macro level. For reasons of deficient demand the whole economy may be unable to generate enough jobs at living wages so that large numbers of people are unemployed, or underemployed, or are engaged in full-time employment that does not pay enough to provide an adequate standard of living. (and thus their human rights are violated).

Below we discuss three biases that lead to entitlement failures at the macroeconomic level.

4. DEFLATIONARY BIAS, MALE BREADWINNER BIAS AND COMMODIFICATION BIAS

Sen’s analysis predates the crisis in East Asia. Neither does it specifically focus on the hazards of macroeconomic policy in open economies where the capital account has been liberalized and government bonds are traded on international capital markets. In such conditions, sustainability of fiscal deficits is dependent upon the behavior of lenders in international markets. Mainstream economists have elaborated mathematical models and econometric tests for determining the sustainability of a government’s fiscal deficit, showing how “it is the behavior (or ‘willingness’) of the government’s creditors that ultimately determines the sustainability of a fiscal policy” (Cuddington, 1997, p. 1). In these models of fiscal sustainability, however, creditors are assumed to be “rational economic men” optimizing their rates of return over time. There is no “herd behavior,” there is no “contagion” between perceptions of the default risk of one government and of governments of neighboring countries; there are no social and political externalities—creditor behavior in these accounts determines the sustainability of the government’s fiscal deficit—but has no wider implications for the sustainability of the government itself and of the social and political framework of the country, and lives of its poorest inhabitants.

(a) Deflationary bias

Economists outside the mainstream have paid much more attention to the ways in which liberalized financial markets have induced governments to adopt policies 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 macroeconomic 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 from dealing effectively with recession and which has a disproportionately negative effect on women (UN, 1999). Women in the formal sector tend to lose their jobs faster
than men, and usually have worse access than men to social safety nets. They crowd into the informal sector, driving down earnings there. Moreover, as compared to men, women assume greater responsibilities in cushioning their families from the negative effects of recession. A review of effects of the Asian crisis shows how the adverse effects on women were amplified because of gender inequalities in labor markets and in the household (UN, 1999). Creditors were in effect “bailed out” while poor women acted as unpaid provisioners as of last resort. The macroeconomic policies insisted upon by the IMF did not simply have a negative social impact; they were designed embodying a profoundly unjust social content, prioritizing the financial rights of creditors over the human rights of the peoples of East Asia, with particularly low priority accorded to poor women.

This outcome occurred not because there was no alternative “sound” macroeconomic strategy available, but because the IMF chose to prioritize the interests of the creditors. The situation has been well summed up by the *New York Times*.

The Fund’s policy prescriptions affect people around the world. It decides whether to bailout Ecuador or let its economy slide. It decides whether Korea should defend its currency in the face of a looming depression by doubling interest rates. It decides whether to crackdown on insolvent Indonesian banks.... Each of these decisions... puts different groups—workers, small shop owners, bankers or foreign investors—at risk. Because economists often can provide no clear answers, the managing director has leeway to decide which groups get bailed out first or at all (*New York Times*, 1999).

(b) Male breadwinner bias

Removal of deflationary bias would not by itself, however, deal with all macro-level, systemic, economy-wide sources of entitlement failure. Feminist economics draws attention to another type of macro-level systemic, economy-wide entitlement failure: women face entitlement failure not only through deflationary bias, but also through “male breadwinner” bias, in macroeconomic policy. This is the bias that comes from assuming that the nonmarket sphere of social reproduction is articulated with the market economy of commodity production through a wage which is paid a male breadwinner and which largely provides for the cash needs of a set of dependents (women, children, elderly people, sick people). “Male breadwinner” bias constructs the ownership of rights to make claims on the state for social benefits (access to services, cash transfers) around a norm of full-time, life-long working-age participation in the market-based labor force. Those whose participation does not fit this norm typically have lesser rights, which they can frequently only exercise as dependents on those who do fit the norm. The result has been the exclusion of many women from entitlements, and the reduction of the scope of the entitlements of many others, making women dependent upon men, especially during periods of women’s lives when they are intensively involved in taking care of children and elders, and when they themselves are elders. For example, the welfare state in postwar Europe was built around the male wage earner and his wife and children and the same idea can be found in the language of ILO Conventions, and the Covenant on Economic Social and Cultural Rights. Macroeconomic policy approaches that rely solely or principally on full employment to achieve social goals such as equitable income distribution and elimination of poverty suffer from the male breadwinner bias. Such policies rarely take into account the relationship between paid and unpaid forms of labor that is just as much at the heart of provisioning of needs as paid forms of labor. In order to be gender-equitable, full-employment policies must be complemented by entitlements for those in informal or part-time paid work and entitlements for the providers of unpaid caring labor as citizens in their own right.

(c) Commodification bias

The “male breadwinner” model is itself now being superceded, not by gender equitable reform of state-based entitlements, but by the drastic reduction of state-based entitlements, and their replacement by market-based, individualized entitlements for those who can afford them, and poverty and overwork for those who cannot—private pensions, private health insurance, private hospitals, private schools, private retirement homes, private paid care for children and old people. This is the third pervasive, macro-level source of entitlement failure which we might call commodification or marketization bias. This occurs when macroeconomic policy is designed to minimize the
role of public provision. Not only is there pressure to minimize the budget deficit, there is also pressure to minimize levels of taxation and public expenditure. (See UN, 1999 for more discussion.)

This has profound and disturbing implications for the organization of social reproduction, and for the majority of women who currently disproportionately provide the unpaid care upon which social reproduction rests. In periods of economic crisis, women will be more likely to act as “provisioners of last resort.” Even in periods of economic prosperity, commodification bias is likely to confine women, especially poor women, to low-paid and insecure forms of paid work.

(d) An economy shaped by the three biases

We have argued that the male breadwinner bias and commodification bias are interlinked. We would further argue that deflationary bias and commodification bias are also interlinked. Commodification bias fuels the growth of financial institutions and pensions and health insurance are privatized; and the growth of financial institutions in search of a high rate of interest fuels deflationary bias in macroeconomic policy. Figure 3 shows the structure of an economy subject to both kinds of bias, identifying the positions of different stakeholders, the key financial transactions between them, and the ways in which households organize their social reproduction. It depicts a situation in which financial institutions dominate the economy, and in which households are divided into two groups differentiated by income levels and by the way they get their livelihood and organize social reproduction.

The majority of households maintain themselves with a mixture of incomes earned in the public and private sectors, subsistence production, cash transfers authorized by the Ministry of Finance, public services provided by the public sector, and the unpaid care provided by family members. The wealthy households, which constitute a minority, receive a large part of their income not from employment but from ownership of financial assets (bonds, shares, stock options, private pensions). These wealthy rentier households are almost as much “offshore” as the financial institutions who supply the financial assets. These households make very little use of public services, pay very few taxes, are not recipients of public transfers, derive wage earnings disproportionately from...
the financial sector, and undertake very little unpaid care for family members, relying instead on paid nannies, nurses, cooks, cleaners, drivers supplied by the other households (or similar households abroad). They are thus depicted in Figure 3 as linked to the economy through their ownership of financial assets (savings) and the return to these assets (interest), and their purchase of personal services. The majority of households are also linked to financial institutions—but in a different way, as net debtors rather than as creditors. In this, they are similar to the government—represented in the figure by the “financial authorities”—the Ministry of Finance and the Central Bank; and to the locally owned part of the private sector.

The transnational corporations (TNCs) have a more autonomous relation to the financial institutions, so long as they generate sufficient profits to finance their own investment and keep up their share prices. The TNCs benefit from public expenditure, through contracts, and provision of infrastructure, and through tax expenditures—the hidden subsidies that corporations get from tax concessions. These tax expenditures are not nearly as visible as the transfers to households in the shape of food subsidies, or child benefits, or maternity benefits, or pensions.

TNCs have bargaining power to extract this “corporate welfare” because they can threaten to leave—or not to come in the first place. The nonwealthy majority of households do not have that luxury. They are already there, mainly through no choice of their own, and the possibilities for permanent migration to become citizens of another country are highly circumscribed. The institutions in the lower part of the diagram, households, government, local firms, public sector, are largely “locked-in” to their country. 21 The institutions in the top part of the figure are relatively “footloose”—wealthy households (who find they are much more welcome abroad than their poorer compatriots), TNCs, and financial institutions (with the latter the most footloose of all). It is these institutions which exert the pressure that results in deflationary bias and commodification bias, threatening to exit if their interests are not given priority. They all have an immediate interest in minimizing tax payments because they are not forced to be permanent stakeholders in the country. Financial institutions and wealthy households have an interest in high rates of interest and in zero inflation because their incomes are principally determined by the real return on financial assets. The position of TNCs is more equivocal since their profits come from producing and selling goods and nonfinancial services to the majority of households. For the same reason, the position of TNCs is more equivocal with respect to public spending, and they may well support public spending if they see that it benefits them (on communications infrastructure for instance).

If the economy does not grow at a rate higher than the rate of interest, then the ratio of debt to income will rise, and at some point the financial institutions are likely to become concerned about the ability of the government to service its debt, as a growing proportion of tax revenue will be used to service the debt. They may express fears that the government will seek to maintain other expenditures and also finance debt repayments by expanding the money supply, leading to inflation and depreciation of the national currency. They may suddenly perceive a greater risk in lending to this country, and will raise interest rates further. This will widen the gap between the rate of growth and the rate of interest even further. If regulations permit this, they will exercise their “exit” option and withdraw as their loans mature.

If the advice given to the Ministry of Finance and Governor of the Central Bank gives priority to maintaining short-run “credibility” with financial institutions, maintaining debt service payments takes precedence over all other interests, and deflationary bias and commodification bias will be reinforced. The rate of growth may fall further and poverty may increase. If the Central Bank and Ministry of Finance are prevented by conditions attached to loans from the IMF from acting as lenders of last resort and as employers of last resort, there will inevitably pressure on women to act as provisioners of last resort, expanding their participation in provision of unpaid care, in subsistence production, and in the informal sector. Male breadwinner bias will also be reinforced.

What this stylized picture points to is the need to discuss why macroeconomic policy is designed in such a way that the entitlements of those who own financial assets are prioritized ahead of the entitlements of those who own only their own labor, as the first stage of a transformatory approach to macroeconomic policy. The construction of a socially just alternative, on the other hand, requires broad social dialogue. Section 5 provides some ideas
for a framework for such dialogue about the content of macroeconomic policies and illustrates this through the example of the Canadian AFB.

5. SOCIAL DIALOGUE AND MACROECONOMIC POLICY

The ability of the different interests to exercise “voice” is foreclosed not by the technical requirements of macroeconomic policy but by fear of pre-emptive exercise of the “exit” option by financial institutions. Their ability to exit rather than join in a policy 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, because fear that the wrong signals will be sent and the volatile “sentiment” of capital markets will be disturbed. It is difficult to conduct a policy dialogue when some of the key players have no stake in the outcome beyond the next few hours. A further important argument for some form of capital controls is to ensure that financial institutions have to engage in discussions with other social interests in the country whose financial instruments they have purchased and cannot foreclose discussion by a pre-emptive exit.

Figure 4 depicts a suggested policy management matrix for macroeconomic policy, identifying different social interests, and identifying some macroeconomic pre-requisites for social justice. The latter are identified in terms of the absence of three biases—deflationary bias, commodification bias, “male breadwinner” bias. The policy dialogue would need to include the regulatory framework i.e. the specification of what rights different social interests can exercise, as well as dialogue about appropriate directions of change to avoid the three biases (e.g., reduce interest rates, raise taxes, raise expenditure on public services). The organization of social dialogue about appropriate macroeconomic policy emphasizes building trust and mutual assurance throughout society and not simply winning credibility.

<table>
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<tr>
<th>Activities of Different Social Interests</th>
<th>Macroeconomic Prerequisites for Social Justice</th>
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<td>Avoidance of Deflationary Bias</td>
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<td>Government</td>
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<td>Other Political Parties</td>
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<td>Civil Society Organizations</td>
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<td>—advocates for women’s advancement</td>
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<td>—environmentalists</td>
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<td>—trade unions</td>
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<td>Private Sector</td>
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<td>Local: big, small and microbusiness</td>
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<td>associations</td>
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<td>Global: TNCs</td>
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<td>IMF, World Bank</td>
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<td>Other Multilateral and Bilateral</td>
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<td>Institutions</td>
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Figure 4. The left-hand side of the balance sheet—a policy matrix for macroeconomic policy.
in the eyes of the bond dealers in international markets. A variety of national budget initiatives undertaken recently in a number of economies constitute examples of such an approach.  

National budgets reflect choices that government have made, but more fundamentally they reflect the values and the claims made on resources by various social groups, i.e. the balance of power within a society. While most budget exercises have focused on the analysis of expenditures, the Canadian AFB exercise, in which a large number of Canadian civil society groups have joined together to produce an alternative budget on which they can all agree, has focused more broadly on macroeconomic policies, making the links between fiscal policy and monetary policy. This initiative produces a proposal for a complete alternative budget, including alternative taxation and monetary policy. It also considers the linkage between global, national and local levels of finance and budgeting. The Canadian exercise is the most complete initiative to date in terms of the formulation of an alternative budget based on explicitly defined social policy goals, an alternative macroeconomic framework and a participatory process.  

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 5% of GDP to a target of 3%. Federal government debt and the cost of servicing this debt was what underlay the 5% federal budget deficit, which the government argued was unsustainable. Loxley (1999) points out that government spending cuts were portrayed as inevitable. The government proposed reducing the deficit by cutting down program spending, which would be expected to bring about a drop in interest rates and revitalize the economy. Thus, the government argued that the deficit was caused by high government spending, which, in its view, also gave rise to high interest rates.  

The macroeconomic framework of the AFB reversed the government’s macroeconomic framework by arguing that the high interest rates were due to the monetary policy pursued by the government through the Bank of Canada. It was argued that reducing the 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. These measures included 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 stresses 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. Among other initiatives, it also proposed a job creation initiative while cutting back spending in unproductive and wasteful areas. Most of the funding (about 70%) 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.  

In terms of the discussion in Section 4, all the measures and proposals contained in the AFB combat the three biases we elaborated on above: the anti-deflationary bias, the commodification bias and the male breadwinner bias. Macroeconomic policies which were presented as inevitable (e.g., program cut-backs in areas which were aimed at social policy goals) were presented with an alternative scenario which proposed to deal with these interconnected biases in macroeconomic policy-making by positing a different macroeconomic-making by positing a different macroeconomic framework and by reflating the economy while at the same time adopting the government’s target budget deficit. The AFB confronted the male breadwinner bias by improving women’s entitlements in areas such as child care, unemployment insurance and pensions.
The AFB was undertaken through consultations among various civil society groups, budget schools in communities across Canada, conferences and roundtables. Underlying the exercises were the following basic principles and commitments: full employment, a more equitable distribution of income, eradication of poverty, gender equality in economic life, the protection of civil, political, economic, social and cultural rights, improvement in the environment, strengthening of social programs and public services and the creation of a more just, sustainable and peaceful world order (Loxley, 1999). Any group accepting these principles could get a seat on the national steering committee, which is made up of representatives from a wide range of citizens’ groups. Thus, the AFB employed a participatory approach that entailed a reconciliation of conflicting demands made by different citizens’ groups. The AFB has helped to shape government policy even though the government is far from adopting the full agenda of the AFB. The Minister of Finance has joined in public debate with the AFB and in some areas the government’s policy has moved closer to that proposed by the AFB.

6. CONCLUSION

Translating internationally agreed upon social principles into macroeconomic policies in the service of social justice requires guidelines not only about the type of policy but also about the process of macroeconomic policy making. A starting point is the recognition that macroeconomic aggregates—public expenditure and revenue, public debt, GNP, the money supply—are bearers of social relations and are imbued with social values. It is not the real resources of a country which set the functioning limits to how much revenue a government can raise or how much it can borrow or how much it can spend. It is the balance of social power, the pattern of social norms, the structure of social institutions, the degree of social consensus, the perceptions of the key players and the framework of market regulation that prevails, both nationally and internationally. But these social relations are not immutable. They are always undergoing a process of endogenous change and can also be changed by deliberate public action. Judgements about the malleability or rigidity of these social relations are implicit in all macroeconomic projections and policy decisions. A useful way of uncovering some of the social content of a particular macroeconomic policy is to clarify what is taken as a parameter and what as a variable; who sets the bounds and who does the adjusting. The claim that there is no alternative to the “sound” and “prudent” macroeconomic policy being implemented is at root a claim that there is no possibility of forging a different social consensus, different set of social norms, a different set of regulations; or that making such a difference is undesirable from the perspective of the policy maker. Such a claim is blind to the ways in which macroeconomic outcomes are the product of macroeconomic policies which are implemented within historically and socially specific institutions. Looking at policies within the context of a specific society, this claim implies an immutability of social structures and institutions. Looking at policies from a cross-country perspective, this means all societies regardless of their specific circumstances must apply similar policies.

There is sometimes a kernel of truth in the mantra that there is no viable alternative macroeconomic policy—there may be no viable alternative macroeconomic policy without social dialogue to produce sufficient agreement about a new social framework. Such an agreement cannot be short circuited by printing more money or borrowing more. “Profligate and unbridled spending” is generally the result of ill-judged attempts to circumvent existing configurations of social power rather than transform them; but so is “profligate and unbridled reduction in spending.” Both are “unsound” from the perspective of social justice.

There is nothing so disempowering as the idea that there is no alternative. We need to investigate how best to produce, for public discussion, a range of macroeconomic scenarios which are explicitly linked to principles of social policy and human development. Production of such alternative scenarios requires alternative macroeconomic frameworks and models which take various power relations, including gender-based inequalities, and their reflection in economic life into account. The research on engendering macroeconomics suggests that there is a need to increase our understanding of the ways in which macroeconomic policies affect nonmarket provisioning as well as market provisioning.

There is also need for new thinking on how macroeconomic policy processes can be transformed into more inclusive and negotiated
processes. A more inclusive way of deciding which budget formulation is appropriate in the context of a specific country would involve a social process of dialogue and negotiation based on widespread participation, particularly organizations of the poor, women, and other social groups whose interests may be ignored in nonparticipatory or traditional approaches to macroeconomic policy making.

Participatory approaches also pose some new challenges. One challenge is the need to transform institutions in order to create an enabling environment for participation. Future research needs to investigate what type of institutional structures best facilitate participation in making designing macroeconomic strategies. Another challenge posed by participation is the need to reconcile what might be conflicting demands made by different groups. Further research into processes through which these demands are or can be reconciled is crucial for furthering social dialogue about macroeconomic policy.

UN conferences of the 1990s have affirmed a set of principles for social justice. These principles, however, will be extremely difficult to realize in substantive ways unless macroeconomic policies are brought out from behind closed doors, and “voice” and not “exit” is the way in which different interests are articulated.

NOTES

1. The World Bank’s Comprehensive Development Framework (CDF) is one such attempt to link “social policies” and macroeconomics.

2. Socially desirable outcomes reflect goals toward the achievement of social justice. The international consensus on the broad principles of social justice is contained in the core Declarations, Conventions and Covenants on Human Rights and the agreements reached at the UN conferences of the 1990s, especially the Fourth World Conference on Women and the World Summit for Social Development. The United Nations Conferences of the 1990s have elaborated these principles in the context of rights-based approaches and have established consensus on goals such as the eradication of poverty, gender inequality, other social inequalities, protection and regeneration of the environment and food security. Within this context, poverty is viewed as a denial of human rights, as is gender inequality.

3. This is generally what is meant by people-centered development or rights-based approaches to development. Examples of such approaches include the human development approach as elaborated in UNDP’s Human Development Reports as well as a number of nonmainstream approaches to macroeconomics including feminist economics. For examples see UNDP (1996, 1997, 1998a,b, 1999), Sen (1999). For examples from feminist economics see Elson (1995a,b) Cagatay, Elson and Grown (1995), Beneria (1995), Cagatay (1998), Sen (this issue), Budlender (this issue).

4. See Beneria (1995) for a parallel discussion of approaches to gender and economics, which simply add on women.

5. The term is coined by Sen (1998).

6. This matrix could be seen as complementary to the CDF.


8. The prerequisites for sustainable growth and poverty alleviation are also identified in a different way in the matrix for Bolivia than in the general CDF matrix, though this might be seen as a flexible adaptation of the matrix to the circumstances of a particular country.

9. This was raised by one of the participants in the online discussion, an economist from the International Center for Research on Women, in Washington DC.

10. Moreover, the matrix on Bolivia displays a confusion on the meaning of gender—gender is a social relation—it does not make sense to speak of social services for gender, any more than it would make sense to speak of social services for class, or race, or ethnicity. The confusion appears to be between “gender” and “women,” for it certainly would make sense to speak of social services for women. This is an important distinction because it carries the implication that if women are not specifically targeted by policies, then “gender” is not relevant.

11. In October 1998, the World Bank/IMF Development Committee, asked the World Bank to develop, in consultation with other institutions, some “general principles of good practice” in social policies. This was prompted by the crisis in East Asia. The Bank paper on
the topic contains three paragraphs (out of 37) on macroeconomic policies.


13. See Taylor (1991) for examples of country experiences with crowding-in as opposed to crowding out.


15. The only sign that matters may be more complex is the footnote in the Bank’s document on “Good Practice in Social Policy,” suggesting that expansionary macroeconomic policies are appropriate in some circumstances.

16. It is often the case in the South that the formal rates of unemployment is relatively low, but underemployment is prevalent and wages are too low to lift large portions of the population out of poverty. In terms of gender inequalities, this is often accompanied by overwork for women who perform unpaid labor in order to sustain their families and themselves.

17. With the current institutional structure of the world economy, declarations of policies that lie outside the mainstream approach as “unsound” become self-fulfilling prophesies as IFIs signal to creditors which policies they will back.

18. Of course, in reality the majority of households have multiple livelihood strategies which involve the participation of women and young people in economic activities. They rarely depend on a single male breadwinner. Women’s participation is less visible, however, because it is more often in insecure, low-paid, informal, part-time or seasonal activities, often described as “atypical,” though this pattern is quite typical for women but not for men.

19. Of course, many countries in the South do not have an extensive system of publicly provided entitlements, but insofar as such systems are in place, they are also based on the assumption of women’s dependence on a full-time lifelong male earner in “typical work.”

20. For example, in the United Kingdom, in the 1980s and 1990s, access to publicly provided income transfers has been narrowed so that such transfers are more and more linked to labor-market participation, and used to “top-up” low wages in the private sector. Taxation and public expenditure can then be downsized—but that in turn downsizes state support for nonmarket provision of care to children, elders, and disabled people in their own homes and communities. Women move from a situation in which their contribution as unpaid care providers is recognized only through entitlements constructed around the idea of a male breadwinner to one in which this contribution is not recognized at all. The only contribution to society which is recognized is through participation in markets.

21. Of course, there is international migration and migrants remittances are important for many households. But except for the highly skilled and wealthy, becoming a citizen of another country is not easy, and much international migration is temporary.

22. The left-hand side of the balance sheet is missing in the CDF, because there is no recognition of the need for, and possibility of, participatory dialogue about the goals and instruments of macroeconomic policy.

23. A recent workshop on “Pro-Poor, Gender- and Environment-Sensitive Budgets” organized by UNDP and UNIFEM, brought together, for the first time, individuals who have been involved in budgeting processes intent on reducing poverty, gender inequality and environmental degradation. The purpose of the workshop was to facilitate crossfertilization between these different approaches and themes, with a view to formulating more holistic approaches to budgeting that weave together environmental, gender and poverty concerns. Further information on the workshop can be obtained from the website http://www.undp.org/poverty/events/budgets_wk.html.

24. The following discussion of the Canadian exercise is based on Loxley (1999). See also http://www.policyalternatives.ca/afb/index.html

25. Loxley (1999) points out that government spending cuts were portrayed as inevitable.

26. The authors of the budget argue that more work needs to be done to incorporate broader gender concerns into the AFB. See Loxley (1999).

27. An example given by Loxley was in the area of proposed cuts in defense expenditures. While many
groups supported such cuts, representatives of workers in the defense industry opposed them. A compromise was found by focusing the cuts on Canadian military operations abroad, purchasing of hardware and by making allowances for labor force adjustment (Loxley, 1999, p. 22).

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