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Thematic Section

Barricades to Gender Equity in the International Financial Architecture

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ABSTRACT *Two areas in the international economic and financial architecture that impede the realization of developmental objectives and gender equity are briefly focused on, and include the contractionary macroeconomic policy framework espoused by the International Monetary Fund, the trend of financial liberalization and the volatility of capital flows and problems caused by it. The international financial architecture's exclusive concern with the monetized financial and commodity economy overlooks numerous adverse impacts on women and girls, in large part because it is based on fundamental gender biases. Bhumika Muchhala recalls from feminist economics literature three systemic gender biases in a liberalized and financialized world economy, which work against the goals of gender equity and women's rights. These three biases are the 'deflationary bias', the 'male breadwinner bias' and the 'commodification or privatization bias'. She argues that a feminist discourse of global capitalism challenges the rigidity of boundaries segregating productive and reproductive activities.*

KEYWORDS *macroeconomic policy; financial liberalization; deflationary bias; male breadwinner; feminist economics*

Introduction

In recent years, as the world economy experienced a financial and economic crisis of magnitude proportion, the predominant arrangements and assumptions of the financial and economic paradigm have also come into a fundamental crisis. This model has in large part been based on the view that trade, investment and financial liberalization, deflationary macroeconomic policies, privatization, labour market flexibility and an export-oriented focus to production, among other objectives, are the optimal terms on which nation states should insert themselves into the global economy.

However, throughout modern economic history, these objectives have repeatedly triggered boom-and-bust financial and economic crises that wreck havoc on economies and societies, often inflicting long-term damage through its various adverse impacts on social and human development. The recent crisis that began in 2008 reveals the ways in which a crisis born in developed countries impacts developing countries, even when the latter have not played a role in instigating the crisis.

These impacts, which include excessive volatility in commodity and food prices, decreased world market demand for exports, balance of payments problems, unstable capital flows, currency swings and a deep credit squeeze, point to the ways in which the international financial architecture is structured on terms that are both unfair and dysfunctional for the larger purpose of development.

While there exist a multiplicity of intersecting issue areas in the international economic and financial architecture that impede the realization of developmental objectives, two areas in particular will be briefly focused on in this article. First, that of a contractionary macroeconomic policy framework; and second, financial liberalization and the volatility of capital flows and problems caused by it. These systemic areas in world financial architecture impose critical roadblocks not only for economic and social development, but also for the realization of human and women's rights, equity of income, access, choices and gender, as well as economic and social rights.

A gender equity approach necessitates a transformatory approach where gender-equitable social policies play a central role in the foundation of the international financial and economic architecture. A transformatory approach means going beyond merely adding social policies for gender equitable outcomes, while still maintaining a focus on market-based criteria, price stability and privatization. Rather, it entails a human development approach at the macroeconomic level, where social justice goals form the central content in the design of economic and financial policies, and where policies are assessed in terms of whether they ultimately succeed in bringing societies closer to achieving social justice. As Elson and Cagatay (2000) state, 'desired social outcomes such as distributive justice, equity, provisioning of needs for all, freedom from poverty and discrimination, social inclusion and development of human capabilities become the ultimate goals of policymaking, including macroeconomic policymaking'.

As Çagatay and Ertürk (2004) point out, although the policies associated with financial globalization are not the original source of gender biases in economic life, they tend to, for the most part amplify gender biases through their ideological push to minimize the role of the state and social service provisioning and maximize the role of markets and private firms in the commodity economy.

A feminist discourse of global capitalism challenges the rigidity of boundaries segregating productive and reproductive activities. In particular, feminist perspectives question the assumption that productive activities in the global and local capital-based sphere are 'economic', whereas reproductive activities situated in caring for younger and older citizens are fragmented, marginal, inconsequential and, in large part, 'non-economic' (Bergeron, 2001). The boundary that is often drawn between the global and the local is also challenged.

The international monetary fund's (IMF's) macroeconomic paradigm

In an effort to respond to the global financial crisis, the G20 grouping of major economies dramatically strengthened the role of the IMF in developing countries, including in low-income countries (LICs), by tripling the Fund's resource base from US$250 billion to $750 billion in 2009 (G20, 2010). And recently, in May 2012, the G20's member states again pledged over $400 billion to the IMF. The IMF's concessional lending capacity to LICs will be ten times higher in 2014 than before the crisis.

Despite the IMF's pledges to address the crisis in flexible and innovative ways, the Fund's key objectives in crisis loans have been demonstrated by a wide range of academic and institutional studies to prioritize 'macroeconomic stability' through the 'tightening of monetary and fiscal policies'.

Since the onset of the financial crisis bailout loans in 2008, financial assistance from the IMF has been attached to fiscal and monetary conditions such as:

- lowering fiscal deficits and inflation levels;
- buffering international reserves (as they fell to dismal levels from the impact of the trade shock in this financial crisis);

- reducing or restraining public spending (through public sector wage freezes and pension freezes, cutting minimum wages, eliminating subsidies to fuel, gas and power, and hiking utility tariffs and tax reforms);
- increasing official interest rates or restraining the growth of the money supply;
- preventing currency depreciation; and
- providing financial sector liquidity where needed.

Instead of increasing government expenditure and boosting domestic demand, local employment and economic activity to overcome the recession, the IMF cut spending and increased tariffs and taxes in already contracting economies for the express purpose of maintaining low inflation and low fiscal deficit rates, flexible exchange rates and trade and financial liberalization. The burdens of these policies, intended in large part to maintain investor confidence across global financial markets, fall squarely on the shoulders of local taxpayers and consumers, particularly the most vulnerable sections of society, including women and low-wage workers in the informal sector.

The twisted logic of austerity is that of seeking to restore the confidence of the financial markets because they are perceived as key to economic recovery, despite the almost universal recognition that the crisis was the result of financial market and credit rating agencies malpractices in the first place.

It is indeed surprising that policymakers are once again putting their trust in the very same financial institutions and markets whose irresponsible behaviour had such deep costs on citizens, government budgets and development prospects. Appeasing these same institutions and following their signals to shape macroeconomic policy and public finance shows that little has been learned from the crisis (Seguino, 2011).

The OECD (2011) released a report on global inequality, titled 'Divided We Stand: Why Inequality Keeps Rising', which illustrates how income inequality has increased and deepened across many developed and developing countries, and how this trend has been engendered by policies such as labour flexibility, privatization, fiscal austerity and the resulting lack of access to education, health and other social and human development entitlements.

The current leadership of the IMF has also acknowledged that too much austerity is risking jobs and growth, and the Fund staff's report to the G20 suggested that developed countries 'have scope to slow their current pace of consolidation, if offset by a commitment of additional tightening later' (IMF, 2011a).

However, developing countries are not granted the same flexibility. International institutions called for, and supported, counter-cyclical policies in developed countries, while continuing to impose pro-cyclical conditions in bailout loans to developing countries. In the long run, the deterioration in health, nutrition and education will tend to have adverse impacts on growth, macroeconomic stability and productivity levels, which adjustment measures purport to support.

A UNICEF (2011) report on IMF surveillance and policy advice for 128 developing countries demonstrates that the scope of macroeconomic austerity is widespread. Seventy developing countries reduced total expenditures by nearly 3 percent of GDP, on average, during 2010, and 91 developing countries will curb spending in 2012. The following adjustment measures, recommended by the IMF for the objective of reducing budget deficits and inflation levels, illustrate how policy space for development strategies and recovery are being constrained, despite the recessionary impacts of the crisis. The measures are: (i) cutting or capping the wage bill (in 56 countries); (ii) phasing out or removing subsidies, predominately fuel, but also electricity and food items (in 56 countries); (iii) reducing social protection programmes (in 34 countries); (iv) reforming pensions (in 28 countries); and (v) increasing consumption taxes on basic goods (e.g. value added taxes) that the poor tend to consume (in 53 countries).

Policymakers need to acknowledge that the evidence from history demonstrates that austerity measures are not effective in stimulating economic recovery from economic recessions and financial crises. Valid policy options that could pave a path towards strengthening national development strategies include expansionary

macroeconomic policies, budget re-allocation to social sectors, debt restructuring, taxing higher-income earners and the private sector (including a financial transactions tax), cash transfers, North–South and South–South transfers, targeting illicit financial flows and using foreign exchange reserves.

An alternative macroeconomic framework that would allow for policy space would incorporate the judgment that fiscal policy plays a central role in driving the development process, and thus has to take the form of public-investment and employment-led fiscal policies. However, the IMF only assesses fiscal policy in terms of the costs of financing a fiscal deficit, while failing to factor in the costs of foregone growth and poverty reduction if the widening of the deficit were not allowed. The IMF also fails to dynamically assess the budgetary position of low-income countries based on the potential for mobilizing additional domestic revenue, or for creating greater fiscal space with additional debt relief initiatives or further grant assistance.

Towards equity and development-oriented fiscal and monetary policies

While the Fund has recommended and included social safety net spending in most of its loan programmes, the presence of social protection systems should not become an effort to merely compensate for the socioeconomic dislocations generated by a pro-cyclical and deflationary macroeconomic policy framework. Instead, social protection systems should be complementary to a macroeconomic framework that prioritizes social and human development investment, even at the expense of higher inflation rates and deficit levels, until the domestic social infrastructure has built a healthy level of capacity and resources (UNCTAD, 2010).

The fundamental approach of IMF policies needs to change in order for developing countries to pursue a national development pathway that yields results. The following are some ways:

- The IMF should not only permit, but also support, the active use of fiscal policy to support public investments and public spending to build essential economic and social infrastructures, on which private investment also inevitably relies (Balakrishnan *et al.*, 2011). Future revenues expected from the investment should pay off the debt that the government initially incurred;
- The IMF should encourage more diversity in monetary options that better enable domestic firms and consumers to access affordable credit for expanding production, employment and increased contributions to the domestic tax base.
- The IMF should support exchange rate management in its developing country borrowers in order to foster broad-based export competitiveness that can lead to greater structural diversification of the domestic economy (Reinert, 2007); and
- The IMF should actively support the regulation of the capital account to confront the often volatile nature of capital inflows and outflows in order to avoid exchange rate volatility and capital flight.

Financial liberalization and capital controls

In the context of the slow recovery in developed countries and the Federal Reserve's quantitative easing, where hundreds of billion in liquidity was created, investors across the world flocked to developing countries, and, in particular, emerging market economies like Brazil, South Korea, Taiwan and Indonesia. However, towards the end of 2011 and in 2012, capital has fled these very same emerging countries, proving once again how volatile and dangerous such flows are (Ocampo, 2011). Whereas capital inflows came with destabilizing pressures such as currency appreciation and asset price bubbles, reciprocal outflows trigger currency depreciations and balance of payments and loan servicing problems. This can lead to a global financial contagion, as seen in the Asian financial crisis of 1997–1998.

Capital controls can provide a significant method for developing countries to protect themselves

from a new financial crisis, while also reducing global imbalances. National policy space is strengthened when states garner some degree of checks and balances over the volatile whims of unregulated global capital.

Effective controls can buffer economies from external shocks, free up capital for productive investment in the real economy and subsidize the cost of foreign exchange accumulation. If applied in the form of taxes on inflows, capital controls can provide a subsidy to offset the cost of reserve accumulation. A tax on the foreign purchases of bonds, equities and derivatives would reduce the amount of reserves needed in emerging markets while simultaneously funding reserve accumulation costs by the very capital flows that create the costs.

While the G20 has not made progress in most areas, their working group on capital flows, led by Germany and Brazil, produced a report titled 'G20 Coherent Conclusions for the Management of Capital Flows Drawing on Country Experiences', which concludes that 'there is no "one-size-fits-all" approach or rigid definition of conditions for the use of capital flow management measures', and in direct opposition to the IMF's verdict that controls should be a temporary last-resort measure the G20 report stated that such measures should not be solely seen as a last resort (G20, 2011). At the Cannes Summit in November 2011, former French President Sarkozy also said that 'the use of capital controls is now accepted as a measure of stabilization, and this is very important'.[1] However, it must be noted that the G20 does not offer an unequivocal support for capital controls either.

In contrast, the IMF asserts that capital controls should be used only after measures such as building up reserves, allowing currencies to appreciate and cutting budget deficits are first carried out (IMF, 2011b). The IMF's efforts to extend its mandate to police and harmonize regulations is inappropriate, as countries in diverse stages of development need national policy space to design measures that fit unique country circumstances, and ensure support for domestic financial systems and the real economy. The IMF, and the Financial Stability Board, along with other bodies, should try to reduce the stigma attached to capital account regulations and protect countries ability to deploy them.

A gender analysis of macroeconomic and financial policies in the global architecture

The international financial architecture's exclusive concern with the monetized financial and commodity economy overlooks numerous adverse impacts on women and girls, and incorporates fundamental gender biases.

Because economic recessions are accompanied by job losses in societies where men are seen as the 'breadwinners', women often experience higher rates of lay-offs. This is exacerbated by women's concentration in precarious jobs, which includes work that is temporary, part-time, contingent or sub-contracted, and which are likely to experience greater declines and fluctuations in earnings, especially in developing countries.

In most developing countries, when all other forms of social protection fail, as they often do, the household and women become the providers of last resort. In the face of job losses and reduced income and public services, women buffer their families from the ill effects of economic crisis by working harder, both within and outside the household.

For example, after the Asian financial crisis of 1997–1998, in both Indonesia and the Philippines the amount of work done by women increased, especially as women played the role of provider of last resort. National surveys conducted in the aftermath of the Asian financial crisis reveal that household coping strategies involved significant increases in the labour market participation of older married women with children, as well as increased production of goods for home consumption.

Reductions in social programmes have a direct and adverse effect on women and girls, in large part due to gender biases within the household. Girls are more likely than boys to be pulled from school during periods of economic distress to care for younger siblings or other family members while their mothers seek paid work. Even if family incomes are restored once the economy recovers,

the educational losses incurred are not easily remedied and translate into permanent gender inequalities and losses in human development and capabilities.

As budget cuts shrink the public sector, women's employment opportunities are hit harder than that of men's, as it is often the public sector that opens doors for women's employment especially employment with more secure work conditions than that in the informal economy. Privatisation programmes dampen women's employment prospects more than those of men, and studies have shown how privatization in Africa and Latin America have been more detrimental to women's employment prospects (Walby, 2009).

Feminist economics also challenges the exclusion of the unpaid economy in macroeconomic policy design. The unpaid economy is that in which people produce goods and services for their families, friends and neighbours on the basis of social obligation, altruism and reciprocity. Jain and Elson (2011) argue that two key reasons to include the unpaid economy in macroeconomic policy include the fundamental importance of the unpaid economy to social reproduction and human well-being, and the fact that the unpaid economy affects the operations, quantity and quality of the paid economy. Labour supplied for production in the paid economy, and goods demanded from production, are shaped by the nature of the unpaid economy, which is in fact the nucleus of the social framework in which the state and the market are embedded.

Three gender biases in the international macroeconomic and financial paradigm

Elson and Cagatay (2000) and Elson (2002) identify three central gender biases in a liberalized and financialized international financial architecture, which work against the goals of gender equity and women's rights. These three biases, which constitute a significant discourse in feminist economics, are the 'deflationary bias', the 'male breadwinner bias' and the 'commodification or privatization bias'.

The deflationary bias is evident in macroeconomic policies aimed at maintaining high interest rates, tight monetary policies and fiscal restraint. Investment and growth rates tend to be volatile in this context of financial liberalization, because the types of macroeconomic policies governments require to attract and retain capital inflows and foreign investments result in a deflationary trend in macroeconomic policy. The avoidance of a deflationary bias is necessary, but not sufficient for gender equitable policies.

The male breadwinner bias is the assumption that the non-market sphere of social reproduction is represented by the market economy of commodity production through wages paid to male breadwinners, which are to support the needs of the family. The male breadwinner bias links entitlement to social benefits and services to participation in the market-based labour force, creating a dependency of those who are excluded from the market-based labour force for benefits and services. The result has been the exclusion of many women from access to services and benefits, while making women dependent on 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.

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. This is because full employment policies rarely take into account the relationship between paid and unpaid forms of labour that, to a large extent, uphold and sustain paid forms of labour. In order to be gender-equitable, full-employment policies must be complemented by social entitlements for those in informal or part-time paid work and for the providers of unpaid caring labour as citizens in their own right.

The third bias to be avoided is privatization or commodification bias, which occurs when public provision is judged less efficient than private provision on the basis of incomplete and faulty measures of efficiency, which do not take account of unpaid work and quality of provision. This results in the replacement of public provisions by market-based, individualized entitlements for those who can afford them, thus creating an

infrastructure of, for example, private pensions, private health insurance, private hospitals, private schools, private retirement homes, private paid care for children and old people, privatized utilities charging market rates for energy and transport.

Rather than pooling and sharing risks and resources, and allowing for cross-subsidies and flexible arrangements, privatization creates separate insurance for specific contingencies. A point of continuity with the male breadwinner bias is that women are still often cast in the position of dependents. The insurable risk against ill health or old age is constructed around male norms of labour market status; and the private system, just like the public system, is accessed by women through their male relatives. The private providers charge the insured workers higher administration costs that the public scheme and risks are shifted to the insured. Market-based, individualized entitlements create sharp divides between those who can afford them and those who cannot.

The privatization bias is a direct function of a macroeconomic framework 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. A transformatory approach to gender equity requires the full consideration of these three central biases in economic policy design. Citizens worldwide and global civil society need to urge their elected, or appointed, policymakers across finance and social sector ministries, as well as national leaders and high-level representatives to address the multiple ways in which the unpaid economy and the care economy are left out of economic priorities, and the unjust burdens and risks placed on women and girls. Only then will economic structures truly include the social and reproductive work on both unpaid and informal levels that uphold the visible (formal, paid) economy that most policies today tend to singularly serve.

Note

1 See http://www.yesicannes.com/yesicannes/G20_president_sarkozy_final_adress.html.

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