Financing Gender Equality: Macroeconomic Policies for Leveraging Resources

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I. A Resource Based Approach to Gender Equity-Enhancing Macroeconomic Policy Development

A. Gender equality requires advances in several domains, and most importantly in:
   - C*apabilities,* which require financing for gender equitable access to health and education, as well as reproductive investments.
   - O*pportunities,* which requires 1) sufficient economic expansion to generate employment opportunities for women in the formal sector and promote increased female representation in economic and political decision-making positions (which results in part from sustained job growth), and 2) investments in infrastructure to reduce women's time burdens.

B. Grown, et al, (2006) provide a detailed analysis of the financial costs of these goals. Financial resources are assumed to come from (in varying degrees): 1) household contributions, 2) government resource mobilization, and 3) external aid. Of these three, household contributions cannot be sufficiently expanded in low-income countries to make a meaningful impact on the cost of gender equality enhancing investments.

C. In the short-run, external aid can be relied on, and for it to be effective, it would need to be administered in such a way as to reach its targets. Those targets would primarily be in the area of public infrastructure and social spending in health, education, and reproductive care. The impact of such investments would enhance government resource mobilization. Those linkages are laid out in more detail in the next section.

D. In the medium-run to long-run, financing for gender equality must focus on government resource mobilization. Reliance on this source is critical to ensure the sustainability of gender equality interventions, due to the uncertainty associated with external aid. An expansion of government resources rather than merely a reallocation of existing resources is fundamentally important for political reasons. A redistribution of existing resources would entail cuts in public spending in other areas. To the extent that males perceive the impact of such cuts as negatively impacting their status, while improving women's, such moves are likely to be resisted.

Redistribution in the context of an expanding "economic pie" increases political feasibility of such expenditures shifts.

II. Framework for designing gender equality enhancing investments

This section describes some key constraints and targets for policy change to stimulate resources for investments that promote gender equality. It also sketches how such resources, both those generated by the governments and external donors, would be allocated.

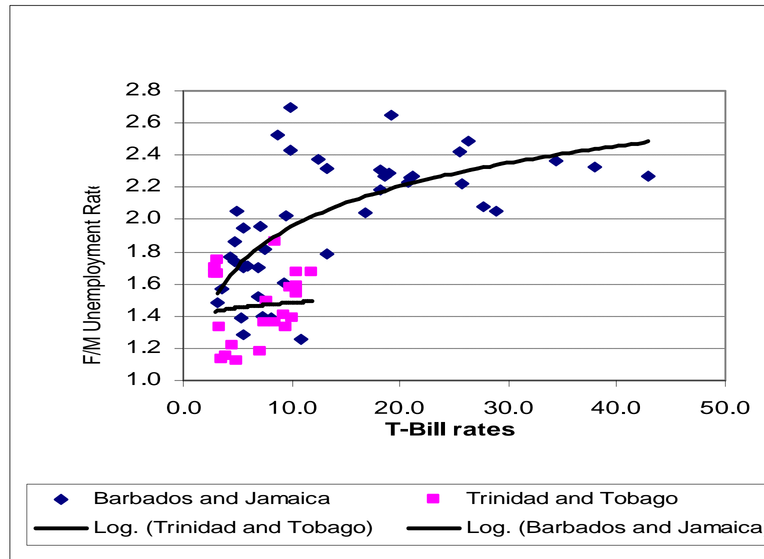
A. Public investment: Targeted public investment in infrastructure and capabilities promotes short- and long-run growth, women's access to employment and capabilities:

- Public investment "crowds in" private investment, reduces costs of doing business, stimulates profits, investment, growth and employment.
- Public investment in infrastructure and training in key areas relaxes supply bottlenecks, *reduces need for tight money policies to keep inflation low*—and relieves women's unpaid labor burden, freeing them to participate in paid economy.[1] Greater gender equity in these areas produces positive feedback effects on long-run productivity and GDP growth (Blackden, et al 2005; Seguino 2006).
- This approach recognizes 1) inflation rates under 15% are not harmful to growth, 2) inflation in developing countries is largely due to supply side constraints, 3) inflation targeting is a mismatched policy tool since it is designed to act on the demand side of the economy, and 4) there are gender unequal effects of disinflationary policy, with women more likely to lose their jobs than men (Braunstein and Heintz 2005; Heintz and Seguino 2006) [Figure 2 below provides an example for selected Caribbean economies, whereby higher Treasury bill rates results in a rise in the female/male unemployment rate ratio, suggesting women's disproportionate burden of unemployment as a result of disinflationary policy];
- Insofar as public investments address sources of inflation, lower interest rates are feasible, which in turn reduces financing burden of debt and deficits, positively impacting on fiscal policy space.
- In this way, targeted public investment that contributes to long-run growth is not just an endogenous variable, but is also an exogenous variable, influencing the rate of GDP growth (much

[1] The potential of public investment in infrastructure to alleviate supply bottlenecks that contribute to inflation is substantial. A World Bank report notes, for example, that logistics costs in Latin America are 20 to 30% of total costs of production, much higher than in OECD countries (where the average is 9%), due to lack of adequate infrastructure services (Development Committee 2005, cited in Roy, et al 2006).

as investment stimulates growth, rather than serving simply as a residual of growth and savings).

Figure 1. Ratio of Female to Male Unemployment Rates and T-Bill Rates in Caribbean, 1980-2001



Source: Heintz and Seguino (2006).

B. **Innovative and gender-equitable central bank policies**

i. In order to expand women's opportunities, utilize expansionary monetary policy, development banking and credit subsidies, and modest capital management interventions.

ii. Focus on *targeting credit* for employment creation.

- Subsidized credit for small-scale agriculture, and small- and medium-sized businesses, and large-scale businesses that can demonstrate their ability to promote significant increases in employment relative to their total spending (with credit provided by private sector, and low interest rates leveraged with government loan guarantees) [Pollin, et al 2006];
- Subsidies to small farmers can promote domestic linkages, stimulating aggregate demand. For example, subsidies to women farmers can stimulate internal trade, supply domestic agro-processing firms, and at the same time, reduce demand for imports;
- Charge market rates for capital-intensive firms with low employment generation potential;

- Side benefit is that entering into lending arrangements with labor-intensive firms in informal sector brings them into formal sector. This permits monitoring and regulation to promote good work conditions.

iii. Coordinate targets for subsidized credit with public investment to reduce supply bottlenecks, keeping inflation low.

iv. Institute asset reserve requirements that require financial institutions to hold a certain percentage of their assets in loans to subsidized sectors such as small- and medium-sized firms and small-scale agriculture.

C. **Industrial policy to move countries up the industrial ladder to more skill-intensive goods production.**

- Long-run growth based on acquiring advanced technologies helps countries to avoid the negative effects of increased competition amongst low-wage export producers for a limited market share—a competition that holds down wage growth—especially of females, who tend to be concentrated in the production of such goods.
- Intervention in markets to nurture domestic capabilities helps producers acquire new technologies from abroad.
- Large industries have large capital requirements, thus government can socialize some of the risks of investment through subsidized credit to targeted industries.

D. Reregulate financial capital

- Implement controls on exchange rates and capital flows,
- This can release sizeable foreign exchange held in reserves. This is because it attenuates the cause of the need for large reserves, the *moral hazard problem* that has been exacerbated as capital flows have been liberalized. Private investors' actions have spillover effects on economy-wide well-being (through potential for financial panics, bankruptcies, competitive devaluations. As a result, IFIs have acted to bail out private investors in response to crises. Bail-outs raise the tendency for financial institutions to take on risky investments. The solution adopted by IFIs in response to the growing costs of hedging against a financial crisis is to require governments to maintain sizeable foreign exchange reserves. These reserves are a potential source of financing for gender equality; policies that reduce the quantity of required reserves can free up resources for other activities. The reserves held by low-income countries amounted to $350 billion in 2004 (Bakker 2007)[2], significantly more than needed to fund MDG3 investments in 2006 for low-income countries of $29.7

[2] Original source: UN DESA *World Economic and Social Survey*, 2005: x.

billion (Grown, et al 2006). Capital controls can slow the mobility of financial capital, limiting the potential for spillover effects of financial crisis, and thus reducing the size of reserves governments must hold, thus increasing resources for gender enhancing expenditures.

- Capital controls can also reduce exchange rate variability that can lead to depreciations and inflation or excessive appreciations that harm lead to loss of export demand and employment. By lowering inflationary pressures, capital controls contribute to lower interest rates, lower costs of funding public deficits and debt, and more affordable credit to the private sector—all of which can stimulate employment growth.

E. **Reregulate foreign direct investment**

- Gender equity in education and other capabilities does not insure that women will be the beneficiaries of their higher productivity. Other measures are needed to improve their bargaining power vis a vis employers.
- Women are concentrated in industries in which workers have less bargaining power—industries in which foreign firms are more "mobile" as well as domestic firms that produce for export.
- Mobile firms rely increasingly on this expanded bargaining power (a result of their ability to relocate) to lower wage costs as a profit maximizing strategy. There is less emphasis on productivity-enhancing investments, particularly in labor-intensive firms that employ primarily women. A related strategy is firm "disintegration" – whereby larger firms outsource as means to shift costs of disruptions in product demand to less powerful elements in production chain, e.g., subcontractors, and by consequence, female workers. The long-run effect is a productivity and wage growth slowdown (Seguino 2007).
- How to regulate FDI to benefit (female) workers?[3]
    1. Make use of locational advantage—e.g., Caribbean economies collectively negotiate with multinational hotel chains to source locally, for example.
    2. Provide state-level (based on defined industrial policy) support to nurture domestic entrepreneurial capabilities; domestic linkages will limit firm mobility.
    3. Clearly, however this is an area in which more research is needed to explore successful cases of restrictions on firm mobility in the context of the WTO rules.

[3] It is less necessary to men's economic well-being to regulate firms to reduce mobility since men tend to be employed in capital-intensive industries where firms are less mobile. Foreign direct investment in those industries is often for horizontal integration (market share), as compared to vertical integration in labor-intensive industries, which seeks to take advantage of low factor input costs, such as labor.

III. A note on fiscal prudence: The exogenous nature of debt-financed development

The single-minded focus on macroeconomic stability in recent years confuses short-run fiduciary interests with long-run development interests (Roy et al 2006). Fiscal "soundness" rules are equivalent to a pay-as-you-go system in place of debt-financed development with intergenerational sharing of costs of development. This is problematic in part because this reflects a view that investments of this kind are strictly endogenous, when in fact they also have an exogenous effect on growth, and fiscal solvency.

Long-run investments that promote development and enhance capabilities can be expected to produce a stream of financial pay-offs (in the form of higher standards of living, tax revenues, and lower debt to GDP ratios) in the medium- to long-term. It makes sense that such investments are debt-financed, with future generation beneficiaries sharing the cost of funding. Short-run fiscal solvency rules can strangle such long-run investments, due to the short time horizon on which fiscal solvency is calculated and, the difficulty of quantifying long term financial benefits of such activities.

This contradictory effect is similar to that between relying on stock markets vs debt financing to fund large-scale investment. Stock markets respond positively to short-run opportunities for high rates of return, distributed as dividends from firm profits. Large-scale investment projects often require patient capital, however, and debt financing is a better vehicle for such investments. In the case of Japan, where banks held seats on the boards of client corporations, lenders had a deep understanding of the potential for corporations to transform, grow, and adapt in a competitive market environment. Banks were willing to engage in long-term lending arrangements, because they had sufficient information on which to base assessments of the firm's ability to repay in the future. The bank-zaibatsu structure served to solve the information problem that made bank capital patient, thus facilitating long-run investment and growth.

IV. Conclusion

Gender equality is first and foremost promoted with job growth. Job growth can be expanded with appropriate monetary policies and credit targeting. Carefully targeted public investment in infrastructure can relax supply bottlenecks that make economic expansion less inflationary, thereby allowing interest rates to fall and job growth to expand further. Rules on firm mobility are also required that can improve women's bargaining power to obtain wages reflecting of their productive capacities.

These actions must rely on external donor financial mobilization in the short-run, due to resource constraints at the country level. In the medium- to long-run, sustainable interventions to promote gender equity will require governments to

mobilize additional resources—not merely redistribute existing resources. Governments will require space to make appropriate fiscal policy to both stimulate economic activity and job growth, and to ensure that adequate public resources are available to fund gender equality enhancing interventions that expand capabilities. In part, the creation of this space is predicated on recasting our understanding of the effect of public investments on gender equity as producing exogenous impact insofar as such investments can trigger growth and improve fiscal solvency in the longer term. This is a deviation of its current interpretation as endogenous, and thereby constrains governments to rely exclusively on pay-as-you-go public expenditures on infrastructure.

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