Policy Space for Developmental States in a Multi-Polar World: In Search of Social Reproduction and Economic Redistribution

Marina Durano
Coordinator for Political Economy of Globalization
Development Alternatives with Women for a New Era

Presented at WIDE Annual Conference 2009
We Care! Feminist Responses to the Care Crises
18-20 June 2009, University of Basel, Switzerland

CHECK AGAINST DELIVERY

Introduction

The United Nations is forecasting contraction in world gross product for 2009 by -2.6 percent. This is a serious decline from an average growth rate of 3.8 percent between 2004 and 2007. Most of the decline in growth will be felt by the developed economies, the economies in transition and the Latin America and Caribbean region. While the rest of the developing economies will be posting some growth, these figures will be much lower than the previous years. These statistics make for a compelling argument for all governments to respond to the crisis at hand. The scale, depth and severity of the crisis additionally requires that responses be coordinated in order to ensure that everyone benefits from combined action.

Double Standards: Unequal power and unfair rules

Looking at the ways in which the governments of the world have responded demonstrate clearly the unequal capacities of state institutions across the world to deal with the impact of the crisis. One factor is the policy space available to government.

Policy space has been discussed in relation to how international agreements can place limits on the policy options available to a government. In other instances, it is a governments' dealings with international financial institutions that place limits through, for example, the use of policy conditionalities attached to loans or grants. Behind the policy conditionalities associated with IFIs is a decisionmaking structure based on equity shares controlled by developed countries. These undemocratic structures have become a symbol of the unequal global distribution of political power among nation-states.

In the context of the global financial crisis, the inequalities in policy are expressed as a set of double standards found in the policy responses to the global crisis.

Fiscal stimulus versus fiscal discipline

Ortiz (2009) found 43 countries made announcements of fiscal stimulus packages that amounted to $2.18 trillion or about 3.5 per cent of the world's GDP. A majority of the countries that have made announcements are high income countries. There seems to be not much known about any plans for fiscal stimulus from countries in Africa.

For many developing countries, fiscal stimulus runs opposite to the more common prescription of fiscal discipline. Many countries with heavy external debt burdens are advised to limit the budget deficit in order to ensure future repayment. Tax bases have also been eroded as trade liberalization have reduced customs revenues at the same time that tax holidays are offered to encourage the entry of foreign investors. With the global crisis and a decline in demand for developing country exports, the downturn will also mean generally lower tax revenues for governments. Developing countries will be hard-pressed to raise the finances needed for a fiscal stimulus package in an environment of tighter liquidity and credit constraints.

Trade protectionism versus trade liberalization

Gamberoni and Newfarmer (2008) reported 78 trade measures have been proposed or enacted since the G20 meeting in Washington, DC last year and 47 of these are trade restrictive measures. About 17 countries in the G20 had such measures in place. Developed countries have tended to use subsidies while developing countries have raised tariffs, used non-tariff barriers or other restrictive measures. This difference reflects the disparity in financial capacity among governments. The G20 Leaders have called for resisting protectionism and to resume the Doha Round of trade negotiations in the WTO.

The potential for trade war is there but it takes on a slightly different character. Rather than a race to the bottom of keeping costs of production down, there is a race to subsidise the most through the stimulus packages, e.g. bank bailouts. UK banks, for example, were encouraged to re-lend to domestic clients according to Evennett and Whalley (2008). Meanwhile, developing countries that lack the capacity to finance subsidies have increased tariffs as in the case of Russia and Ecuador. Others have used non-tariff measures such as non-automatic licensing requirements in Argentina, port of entry restrictions in Indonesia, and stricter standards application in India and China.

Support for employment generation could not be more than emphasized here. But, these are to be taken in the context of the broader package of industrial policies and strategy. Unfortunately, the crisis has brought a resurgence of the debates on protectionism and free trade. Rather than be pre-occupied with potential trade wars in seeking economic recovery, what is needed is a return to the lessons provided by the experience of the East Asian economies on the institutional requirements of economic growth that depend on a "significant government assistance", to use Dani Rodrik's phrase.

Liquidity expansion versus lack of access to liquidity or increased borrowing

The potential for Special Drawing Rights allocation to be increasingly used by developing countries as a reserve currency has not been realized. In 1997, the IMF Board of Governors agreed to an Special Drawing Rights (SDR) allocation but this has not yet become effective because the US (both Treasury and Congress) has not given its backing even as 73.34 percent of total voting power already approved the release. Yet recent G20 meeting has highlighted the SDR as an important component of the response. Reports that any potential SDR allocation would be distributed according to the IMF equity shares makes it even more difficult for developing countries to benefit from SDR allocation should it take place.

The US dollar as a major trading currency and as a reserve currency has provided the US economy with plenty of latitude for monetary expansion with little impact on domestic inflation. A replacement currency, whether SDR or any other, would lower the reduction of US-dollar denominated bonds that many central monetary authorities currently prefer. Many countries wary of the volatility of international financial flows have held high levels of gross international reserves resulting in forgone consumption and investment that would have contributed to economic growth. At the same time, the cost of holding US Treasury Bills is high for developing countries. They earn negative interest rates even when investments in their economies yield very high returns.

As a result developing countries will have to resort to new borrowing if they are to respond to the crisis or allow themselves to follow the aid effectiveness agenda should increased aid materialize.

When the Politics of Aid Sets Limits to Multilaterally-coordinated Action

The search for an internationally coordinated response appeared in two main international arenas: the G20 and the UN. Leaders of a group of 20 economies recently met in London to outline their responses to the crisis. At the same time, Member States of the United Nations are discussing their actions seeking to establish the United Nations as a political space for inter-governmental decisionmaking on economic policy issues, especially on monetary, fiscal, and financial policies, as well as in the design and restructuring of the international monetary and financial architecture.

Currently, the more influential multilateral institutions that set the agenda for macroeconomic policies have been the World Bank, the IMF, and the WTO. The debates going on in New York right now reflect the preference of mostly developed countries to retain this configuration. The United Nations is considered as an incapable institution--it does not have the technical capacity and knowledge over macroeconomic policy issues, even though it may have the broadest membership among the multilateral institutions. The G20 Leaders choose to use the Bretton Woods institutions as the institutional channels for implementing their global response to the crisis.

A more nuanced approach may be that even European countries are under pressure to reduce government deficits, which was institutionalized in the Stability and Growth Pact.

The pact limited government budget deficits to 3% of GDP and national debt to be less than 60% of GDP. The Pact may have become a “motivation” behind the reduction of official development assistance (Atkinson, 2005). Atkinson (2005) cited McDonell, et.al. (2003) as reporting that public support in OECD-DAC member countries remained high for over two decades so that aid fatigue cannot be claimed. Concerns, however, were raised on the “effectiveness” of aid as well as the low levels of understanding of poverty and development by the public. Certainly, the Paris Declaration on Aid Effectiveness is an attempt by the OECD-DAC to create a new framework for development cooperation. Perhaps the underlying assumption was that it would be very difficult to meet quantitative targets and so effective delivery needs to be the focus. The politics of aid has also brought on a division of labor that gives the UN little space for macroeconomic policy design and decision-making and gives the BWIs plenty of latitude to continue with the Washington Consensus and business as usual despite the global crisis.

Middle-income countries have in some way reacted to the dominance of donor countries by becoming donors themselves. China, in particular, also offers its excess reserves as another source of liquidity. Hudson (2009) reported on a recent meeting of the Shanghai Cooperation Organization whose membership includes Russia, China, Tajikistan, Kazakhstan, Kyrgystan, Uzbekistan with observer status for Iran, India, Pakistan, and Mongolia. One of its recent decisions included meeting with Brazil in order to begin trade talks using each other’s currencies, including the Chinese renminbi, for international trade. This is clearly an attempt to move away from the US dollar as the preferred currency for international payments.

In Search of Social Reproduction and Redistribution

The political context set out above provides the backdrop for the questions that feminists often raise: where is the place for social reproduction in the economy and how do we redistribute resources and opportunities? How do we put an end to the production and reproduction of inequalities by neoliberal policies. The gendered impacts of the global crisis have been raised under this political context: the potential to impinge upon the time burdens of women; the possibility of absorbing the care burdens even more as market-based services or public services become less accessible; higher unemployment rates, or increasingly being marginalized into the informal sector, or worsening of working conditions. This describes the fate of women with every crisis.

The search for solutions and new approaches becomes “burdened” by an unwritten demand (sometimes from policymakers, other times from feminist themselves) to make sure that the “value-added” to alternative macroeconomic policies of a feminist perpspective is clearly demonstrated. Gender-responsive budgeting is “accepted” following this argument. Although, many advocates of GRB argue that GRB is a tool and not a policy prescription. Social protection policies, which can be seen as redistributive, is accepted following this argument. But, what does a feminist perspective bring to the table when the discussion is the Special Drawing Rights? Or on bank supervision? When Singh and Zammit (200?) argued for the use of capital controls in order to control the volatility of international financial flows, the feminist argument was that such controls mitigated the impact of volatility of women's employment. The feminist argument for capital controls reinforced the original set of arguments for them by showing that a particularly "vulnerable" social group will benefit from these controls.

My impression of feminist economics analysis of macroeconomic policy is that the approach allies itself strongly with heterodox economics. This alliance has proved useful for activists in securing a space to raise their issues, concerns, and proposals in the various arenas of political debate. But there seems to be this added burden of providing a distinct policy recommendation that can claim to be "feminist" or "gender-responsive" or "gender-sensitive" (distinct from heterodoxy). Could the excuse for continuously ignoring women and feminists by the broader alliance seeking alternatives be that heterodoxy suffices to fulfil gender-equitable requirements of macroeconomic policy alternatives? I am unclear as to where feminist economics has taken us forward with respect to designing policy alternatives.

But what is it that we are trying to achieve? I would argue that we need to learn how to design gender-equitable public policies. In designing gender-equitable public policy it is important to understand the division of responsibility over the varying aspects and processes of provisioning for the improvement of well-being. This understanding is necessary for making decisions over the distribution of material and labour resources that members of society need for survival, maintenance and prolongation. What we consistently find is that the assignment of responsibilities for care are skewed towards women, to the extent that it limits her ability to participate fully in all of society's activities. We are looking for policy measures that create behavioural incentives to change the balance of responsibilities for social provisioning and care so that these are more evenly shared among the major social institutions--households, states, markets, and non-profit sectors.

For example, in implementing cash transfer programs, women have been chosen as the primary beneficiaries because their expenditure patterns are closer to socially desired goals, such as health care and education. Benefits have been shown to accrue to the children of women receiving the cash transfers and, yet, the responsibility for ensuring that the sick are cared for and that school assignments are done remains with the women. In this case, the cash transfer program falls short of changing the burdens of responsibility.

Expansion of policy space as an implicit demand for sovereignty

Developing country nation states have been weakened by de-regulation and privatization. Vivienne Taylor wrote about the marketization of governance. And, indeed, we are seeing the governance for marketization that secures profit seeking. The prevalence of this approach to governance has resulted in the developmental state being a dream for many countries, with East Asian economies becoming exceptions rather than the rule.

The political battles over a globally coordinated response to the global economic crisis is captured by the developing countries' demand for more policy space. I view this demand as an implicit demand by developing country governments to secure sovereignty. It is an assertion of political independence over the range of policies that governments can pursue. Perhaps this can be interpreted as an attempt by weak states to fulfil its developmental potential.

Political restructuring and social transformation begets the question of the relationship between the citizen and the nation-state. The political contestations are not so simple because many social groups are groups of non-citizens or are indigenous peoples with their customary laws. One of the more popular campaigns of women in politics is to increase the number of women in decision-making positions. Successes have been recorded in this arena in many countries. In order to realize the potential of women's leadership, and particularly of feminist leadership, it will be important to provide policy alternatives that reflect the goal of gender equity or, at least, take our societies closer to that goal. Or, in the context of this conference, the policy alternatives that feminist leaders carry reflects our valuation of socially reproductive activities or the care economy. But these policy alternatives appear to be difficult to carry out unless the policy space is wide enough to do so. Therefore, women's movements relations with the nation-state need also to become more clearly defined at the national level as well as at the international or inter-governmental level.

Feminist demands need some form of expression at the global level. While women's movements and feminist movements may be able to conceive of gender-equitable public policy at the national level in relation to our respective nation-states, dependence and inter-dependence of economies demands that, whatever the shape these gender-equitable public policies take, these movements also need to be able to design multilateral institutions that will pursue gender-equitable public policies at the international level. In other words, it will be important for women's movements to secure their gains at the national level by ensuring that the global environment favors instead of restricts the pursuit of feminist alternatives.

Part of the public policy design challenge is the empowerment of women (or strengthening the feminist constituency) so that their political actions are able to carry forward the policy reforms and the political restructuring that they demand. Strategies are needed to enhance women's empowerment so that women's movements can navigate the global economic governance complex that is currently defined by multi-polar international political relations.

Such an approach implies the importance of human development that would "insist that a fundamental part of the good of each and every human being will be to cooperate together for the fulfillment of human needs and the realization of fully human lives," to quote Martha Nussbaum when she wrote on the subject in 2004.

References:

Atkinson, Anthony B. (2005), “Innovative sources to meet a global challenge,” in New Sources of Development Finance, Atkinson, A., ed. Oxford: Oxford University Press.

Aryeetey, Ernest (2005), “A development-focused allocation of the Special Drawing Rights,” in New Sources of Development Finance, Atkinson, A., ed. Oxford: Oxford University Press.

Gamberoni, Elisa and Richard Newfarmer (2008), “Trade protection: incipient but worrisome trends,” in The Collapse of Global Trade, Murky Protectionism, and the Crisis: Recommendations for the G20, Richard Balwin and Simon Evenett, eds. London: VoxEU.org.

Ortiz, Isabel (2009). “Fiscal stimulus plans: the need for a global new deal,” www.networkideas.org (downloaded 17 June 2009).

Singh, Ajit and Ann Zammit (200?)