wbg WOMEN'S BUDGET GROUP

A FEMINIST APPROACH TO MACROECONOMICS

FEMINIST AIMS FOR ECONOMIC POLICY

The Women's Budget Group believes that the ultimate goal of economic policy should be to improve the well-being of people in an environmentally sustainable way, by creating a Green and Caring Economy.[1] In a green and caring economy, everyone should have secure access to food, shelter, education, health and care to meet their basic needs. It implies living in a healthy environment, with access to clean water and air, green areas and rich biodiversity. Resources should be equally distributed, helping to build strong communities and spaces that allow people to flourish.

Unpaid care and domestic work have substantial economic importance, despite not having a market value, as our society relies on them to function. However, mainstream economic policy tends to focus only on paid activities and fails to take into account unpaid care and domestic work, which is mostly done by women. This renders this work invisible, even though it is fundamental for human life and the economy.

To better represent all costs and benefits, and provide solutions that work for everyone, every activity needed to sustain life and society should be considered when making economic policy decisions. Failing to do so risks worsening economic conditions for women and deepening inequality.

UNPAID CARE AND DOMESTIC LABOUR – WHY IT SHOULD BE INCLUDED IN THE ECONOMIC FRAMEWORK

Unpaid care and domestic work are vital for the well-being of us all. We all need others to care for us at different points in our life, and most of us will provide care for others. Care is vital for the functioning of the economy, the reproduction of the labour force, the well-being of those who have retired from the labour market or who have yet to enter it, and the maintenance of our social fabric. This work includes caring for children, sick and disabled people and frail elderly individuals, cooking and cleaning for all household members, including adult men, and managing the household budget, among many others.[2]

Unpaid care and domestic work is unevenly distributed, with significant consequences for gender inequality. According to recent ONS data, on average, men spend nearly two hours and 25 minutes daily doing unpaid household work and care, while women spend an average of three and a half hours on these tasks.[3]

No type of economic growth could happen without unpaid care work. Despite its importance, mainstream economic analysis and most policies do not consider the dynamics of unpaid care and domestic work provision. There is an implicit assumption that whatever unpaid work is needed to sustain the paid economy will always be provided. The costs of this work (in

[1] Commission on a gender-equal economy (2020) Creating a caring economy: a call to action
[2] D. Elson and M. Fontana (2019) Conceptualizing gender-equitable inclusive growth in D. Elson and A. Seth (Eds.). 2019. Gender Equality and Inclusive Growth: Economic Policies to Achieve
[3] ONS (2022) Differences in time use after coronavirus restrictions were lifted, UK: March 2022

terms of time, energy, ill-health and lost opportunities) to those who provide it, and the limitations on their capacity to provide it, remain invisible in most macroeconomic analyses.[4] Women and girls are the most affected by the lack of acknowledgement of unpaid care and domestic work because they are the ones who typically do unpaid activities in care and domestic work.[5]

Keeping unpaid care and domestic work out of the economic framework is not innocuous. Gender inequalities in unpaid work have consequences across all aspects of women's lives and spheres of society. Different access to education, segregation of jobs, higher reliance on public services and social security, and certain health conditions, among others, have at their root cause the uneven distribution of care labour, its lack of recognition and undervaluing. In the paid economy, the salaries for care workers are generally low because the work involved is undervalued. Women are the majority of workers in this sector, so are hit hardest by this.

The effects are also felt at the collective – macroeconomic – level, with increased costs for society in the long term. The fact that women might be prevented from increasing their participation in the labour market leads to a reduced workforce, lower employment and economic activity, a smaller tax base and skills shortages. A study by the Centre for Progressive Policy shows that an equivalent of 1.5 million mothers would increase their working hours if they had access to suitable childcare. The additional hours would generate between £27bn and £38bn in gross value added (GVA) every year, nearly 1% of UK GDP.[6] The Women's Budget Group and the Centre for Local Economic Strategies (CLES) estimated that if women had the same level of participation in the labour market as men, local economies would generate, on average, £1.68bn of GVA per year, equivalent to £88.7bn for Wales, Scotland and England, nearly the same as the contribution of the financial sector in the UK.[7]

Domestic work and unpaid care need to be recognised and included as a fundamental sector of the economy that produces value, has a cost and is unevenly distributed. At the household level, economic policy should incentivise the equal redistribution of daily care activities, alleviating the responsibility for women and girls and bringing men into this essential work. The public provision of care within the formal economy, remunerated at a decent level, would increase the alternatives for those caring for others, primarily women, allowing them choice and contributing to improved economic circumstances, therefore reducing gender inequality and creating a stronger economy.[8] A comprehensive economic framework that includes unpaid care and domestic work alongside market activities would lead to better policies and outcomes for everyone.

[4] Macroeconomic policy is the use of monetary and fiscal policy to achieve economy-wide objectives. Monetary policy is typically conducted by central banks and comprises decisions about interest rates, financial regulation and inflation targeting. Fiscal policy depends on the government and covers public expenditure, taxation and borrowing. For more details see D. Elson (2019) Macroeconomic Policy for a Gender Equal Economy. Briefing Paper for the Commission on a Gender Equal Economy.
[5] ONS (2022) Ibid
[6] Centre for Progressive Policy (2023) Growing pains. The economic costs of a failing childcare system
[7] Women's Budget Group and Centre for Local Economic Strategies (2023) £88.7bn per year: the cost of barriers to paid work for women
[8] D. Elson (2017) Recognize, Reduce and Redistribute Unpaid Care Work: How to Close the Gender Gap

THE IMPORTANCE OF INVESTING IN SOCIAL INFRASTRUCTURE

Central to a feminist approach to macroeconomics is investment in social infrastructure. Social infrastructure comprises health, education and care services (also referred to as the care economy[9]), including the workers in these areas and the buildings and facilities where the services are provided.[10]

At the moment, almost all public spending on such services is considered "public consumption" or "current expenditure". Only spending on buildings (such as hospitals, schools, and nurseries) is viewed as an investment. Spending on staff and other running costs is not. But public resources allocated to social infrastructure should be considered an investment too, because of its long-term, positive effects: higher productivity, higher pay, increased tax revenues, lower spending on social security benefits and decreased pressures on other public services like health or justice.[11]

Moreover, the care economy is a relatively low-carbon sector, as these are labour-intensive rather than resource-intensive sectors. For example, investing in the care economy would produce 30% less greenhouse gas emissions than investing in construction.[12] Hence, the public provision of social infrastructure should be at the core of economic policy that promotes equality and protects the environment.

Investing in social infrastructure would positively affect and boost the economy. For example, expanding early years education and childcare and social care would generate jobs, especially for women. Also, more women could reduce the time allocated to unpaid work and engage in the labour market. This, in turn, would improve the economic conditions of women and their families. Jérôme de Henau[13] estimates the annual public expenditure necessary for a system of highly qualified and well-paid early years and childcare staff with low child-to-staff ratios, with universal coverage for all children aged six months to 4.5 years. The gross annual cost would be 1.2% - 2.3% of GDP, depending on take-up rates and worker pay. This investment should increase employment (directly and indirectly), tax revenues for the government, and reduce social security spending, paying for around two-thirds of the gross cost. The net annual funding requirement would be 0.3%-0.8% of GDP, which could be covered by raising taxation for the richest 20% or by mothers' increased incomes throughout 21 to 31 years.

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[9] O. Onaran and C. Oyvat (2023) The employment effects of public spending in infrastructure, the care economy and the green economy: the case of emerging economies.

[10] J. De Henau, S. Himmelweit, Z. Lapniewska, and D. Perrons (2016) Investing in the care economy. A gender analysis of employment stimulus in seven OECD countries. Women's Budget Group Report to the International Trade Union Confederation, Brussels.

[11] Commission on a gender-equal economy (2020) Creating a caring economy: a call to action; J. De Henau and S. Himmelweit (2020) A Care-Led Recovery from Coronavirus; J. De Henau and S. Himmelweit (2021) A care-led recovery from Covid-19: investing in high-quality care to stimulate and rebalance the economy. Feminist Economics, 27(1-2), 453-469.; J. De Henau, S. Himmelweit, Z. Lapniewska, and D. Perrons (2016) Investing in the care economy. A gender analysis of employment stimulus in seven OECD countries. Women's Budget Group Report to the International Trade Union Confederation, Brussels; Ö. Onaran, C. Oyvat and E. Fotopoulou (2021) A purple, green and red new deal for equitable sustainable development in the UK; S. Seguino (2019) Tools of macroeconomic policy: fiscal, monetary and macroprudential approaches in D. Elson and A. Seth (Eds.). 2019. Gender Equality and Inclusive Growth: Economic Policies to Achieve Sustainable Development. New York: UN Women.

[12] J. De Henau and S. Himmelweit (2020) A Care-Led Recovery from Coronavirus Women's Budget Group

[13] J. De Henau (2022). Simulating employment and fiscal effects of public investment in high-quality universal childcare in the UK. International Journal of Child Care and Education Policy, 16(1), article no. 3

For children, access to early years education has widely documented positive long-term benefits[14], including higher earnings in the future. A properly funded healthcare system could provide the medical care that people require in a timely manner, ensuring that they are healthy and better able to participate in the labour market and contribute to society in other ways.

The UK is experiencing unprecedented levels of economic inactivity due to long-term illness, with a sustained increase since January 2020.[15] After the pandemic, the UK's labour force lost 520,000 people compared with the expected values before Covid-19.[16] By contrast, economic inactivity in other OECD countries has decreased in the last years, showing a recovery from the impacts of the pandemic.[17] This is a good example of why we need a strong health service and proper social infrastructure to support the population and have a healthy and functioning economy.

THE ROLE OF FISCAL POLICY

Fiscal policy covers the three dimensions of the government budget: public expenditure, taxation and borrowing. When spending is higher than tax revenue, there will be a budget deficit, and governments will have to borrow.

Fiscal policy generates impacts (negative or positive) across the economy. For example, an increase in wealth taxation would mean more public revenues[18] that could go into increasing NHS funding and help reduce waiting lists. This would result in a healthier population and more people entering or remaining in the workforce. On the other hand, cuts to public spending on social security tend to increase poverty and lead to worse life outcomes for children, with adverse effects on their well-being and the economy's long-term strength.[19]

Government spending and investment decisions must be guided by long-term strategies based on responsibly improving well-being and equality, resulting in a more robust economy. How to pay for public investments, how much and how to tax, and when and for what the government should borrow are all decisions that should be made based on need rather than arbitrary debt targets.

Currently, the UK government has a set of self-imposed fiscal rules that are supposed to guide the decisions of the Treasury on how much to spend and how much to borrow and tax. In the Autumn Statement 2022, the Chancellor announced two updated fiscal rules: (1) public sector net debt (excluding the Bank of England) to be falling as a percentage of GDP and (2) public sector net borrowing to be below 3% of GDP, by the fifth year of the rolling forecast, and (3) a cap on welfare spending.[20]

These fiscal rules are arbitrary, very volatile and misguided. There have been six sets of fiscal rules in the last nine years.[21] Different Chancellors have changed these rules when they appear likely to miss their targets, demonstrating that these rules are not fulfilling their stated purpose of

[14] L. Feinstein and K. Duckworth (2006) Development in the early years: Its importance for school performance and adult outcomes.
[15] ONS (2023) Labour Force Survey: Economically Inactive in the UK
[16] Office for Budget Responsibility (2023) Economic and fiscal outlook 2023
[17] OECD.Stat (2023) Short-Term Labour Market Statistics: Inactivity Rates.
[18] Tax Justice UK (2022) Five policies that could raise up to £37 billion in tax
[19] British Medical Association (2021) Cutting away at our children's futures: how austerity is affecting the health of children, young people and families
[20] HM Treasury (2022) Autumn Statement 2022
[21] A. Stirling (2023) Playing by the fiscal rules. New Economics Foundation.

making the government accountable for its decisions. In addition, the current rules highly depend on the economic circumstances at the national and international levels. Hence, how far or close to the target the government is can easily change even if there have not been new policy decisions. In November 2022, the OBR forecasted that public sector net borrowing would be 2.4% of GDP by 2027-28. Four months later, the estimated net public sector debt for 2027-28 decreased to 1.4% for the same set of policies.[22]

However, the main problem with the Government's fiscal rules is that having fiscal consolidation (a falling debt-to-GDP ratio) as a goal is not the best thing for the economy or people. A rigid debt-to-GDP ratio or deficit cap for a government is problematic because during economic downturns, borrowing to invest in critical sectors is necessary to support people, workers, and businesses and boost the economy.

Attempting to accommodate fiscal policy to meet specific targets leads to short-term, politically motivated decision-making that is not good for the economy, damaging its public services or the interests of the women who depend on them. For example, in a climate crisis, the responsible thing to do would be to green our economy by increasing spending on projects that will benefit future generations. Instead of trying to cut public spending, the government should increase debt and taxes to invest in a green economy with strong public services.

As a guiding principle in taxation, the ones with more should contribute the most. To make our tax system fairer and more progressive, we should move towards taxing passive income, such as dividends and interest, at least at the same rate as income from labour. It also means taxing capital gains at an equivalent rate and considering ways in which wealth itself, far more unequally distributed than income, could be effectively taxed. Asking those at the top of the income and wealth distribution to contribute more is a fairer way to increase government revenues which also reduces inequality.[23]

The appropriate level of investment and funding of public services should be one that ensures a high-quality provision and responds to the needs of the population. The resources should come from a mixture of public borrowing and tax revenues. The exact combination would depend on macroeconomic circumstances, but always guided by the principle of progressive taxation and considering the short and long-term benefits of investing in social infrastructure[24].

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[22] Office for Budget Responsibility (2022) Economic and fiscal outlook 2022; (2023) Economic and fiscal outlook 2023. The 1.4% of net public sector debt is without considering the announcements of the Spring Budget 2023
[23] S. Himmelweit (2023) Spring Budget 2023: Taxation and gender
[24] S. Seguino (2019) Ibid.