Briefing Paper for Commission on a Gender Equal Economy By Diane Elson

Macroeconomic Policy for a Gender Equal Economy

What is Macroeconomic Policy?

- Macroeconomic policy is the use of fiscal and monetary policy to achieve economy wide objectives.[1]
- Macroeconomic policy has generally aimed to stabilise the economy, avoiding high rates of inflation, and supporting the availability of paid work for all who want it ('full employment'); and to support stable growth of GDP and of real incomes. Equality has not been an explicit policy objective.
- Fiscal policy is conducted by the Treasury and comprises planning the aggregate level of government expenditure and revenue; budget deficits (or surpluses); and government borrowing (in the UK mainly via selling government bonds[2]).
- Monetary policy is conducted by the Bank of England and comprises decisions on the key rate of interest, the Bank Rate, which influences all other rates of interest; on how to regulate the financial system; and on use of other monetary instruments, such as Quantitative Easing, in which the Bank of England creates digital money to buy government and corporate bonds.
- In 30 years after the Second World War, macroeconomic policy was generally conducted to accommodate high levels of public investment and to expand demand to counteract falls in output and employment.
- Since the late 70s, there has been much greater emphasis on reducing public expenditure and taxation and keeping interest rates low to promote private sector investment.
- This has been reinforced by financial deregulation that permits free flows of capital between countries and puts pressure on Finance Ministers and Central Banks to prioritise incentives for private investment and low inflation. If they do not, there may be capital flight and a precipitous fall in the value of the currency against other major currencies, such as the US dollar and the Euro.
- This neo-liberal approach to macroeconomic policy culminated in the financial crisis in 2008, but the response, after bailing out the banks, was 10 years of austerity in UK, deepening unemployment and inequalities.
- Macroeconomic policy rules were adopted that constrain budget deficits, borrowing and public investment, making an expansionary fiscal policy difficult.
- However, to cope with economic repercussions of Covid 19 and the lockdown, the Chancellor has torn up the rule book, allowed the budget deficit to rise and massively increased government borrowing.
- This presents an opportunity for new, more equitable, approaches to macroeconomic policy in the future but nothing is guaranteed, so it is important to put forward new ideas for macroeconomic policy.

Recommendations

- Macroeconomic policy should be redesigned to support gender equality.
- Equalities impact assessments should be conducted to avoid macroeconomic policies that reduce equality and have a disproportionately negative impact on disadvantaged groups.

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[1] For more detail on macroeconomic policy, see Appendix A.

[2] For an explanation of government bonds, see Appendix A, p. 13

- Macroeconomic policy should recognise the unpaid as well as the paid economy and should support efforts to redistribute unpaid care work, monitored through time use data.
- Putting a market value on unpaid work and creating a satellite account to set alongside GDP is less important than collecting time use data on a regular basis.
- Any macroeconomic policy guidelines should be subordinate to international human rights obligations for fulfilment of women's rights.
- Current macroeconomic policy rules, that make it easier to invest in physical infrastructure than in social infrastructure should be changed. They restrict the ability of governments to make the investment needed for a gender equal economy.
- The range of objectives of macroeconomic policy should be extended to include well-being, monitored through indicators such as the Genuine Progress Index and indicators not only of employment and unemployment, but also underemployment and precarious employment, disaggregated by gender.
- Overall fiscal and monetary policy should be designed to accommodate this broader range of objectives.
- Specific measures to create more fiscal space for gender equality investments should be identified. This should include reduction of spending that is not a priority for gender equality, such as military spending; and raising more revenue, including through measures linked to specific public services, presented as 'contributions' (on the model of national insurance contributions).
- A wider range of borrowing instruments could be created, such as Green New Deal Bonds and Care Bonds, supported by incentives for savers to buy these bonds, and by Quantitative Easing.
- The Bank of England should have employment targets as well as an inflation target.
- The risk that capital flight and financial crises can pose to gender equality supporting macroeconomic policy should be reduced through measures such as capital controls at national level and through international cooperation to better regulate the international financial system.

Feminist critiques of macroeconomic policy

There is no mention of men or women in macroeconomics, except perhaps in relation to employment and unemployment. Analysis and policy appears to be gender-neutral but feminist economists have argued that if you look more closely this is not so[3].

1. *Lack of recognition of unpaid care work*

Feminist economists have argued that macroeconomics fails to recognise that labour is a produced means of production whose production requires unpaid care work, disproportionately done by women and girls[4].

Unpaid care work is not counted in the GDP. There are a number of ways its monetary value could calculated and compared with GDP. In the UK, in 2002 the Office for National Statistics produced a

[3] Elson, D. (1991) 'Male bias in macro-economics: the case of structural adjustment' in D. Elson (ed.) *Male Bias in the Development Process*. Manchester: Manchester University Press:164-190. Cagatay. N., Elson, D. and Grown, C. (1995). 'Introduction: Gender, Adjustment and Macroeconomics'. *World Development*, 23 (11): 1827-1836.
[4] Folbre, N. (1994) *Who Pays for the Kids? Gender and the structures of constraint*. London: Routledge. Picchio, A. (1992) *Social Reproduction: The Political Economy of the Labour Market*. Cambridge: Cambridge University Press

Household Satellite Account (HHSA) that measured output of unpaid household production at market prices. A new version was released in 2016 that measures the market value of adult and child care, household housing services, nutrition, clothing and laundry, transport and volunteering, and covers the period 2005-2015. It showed that the proportion of total household production to GDP has grown by 3.9 percentage points, from 52.2% to 56.1% between 2005 and 2014[5]. Child care was the largest component account for 31% of unpaid household production. The output of unpaid child care was measured as the total amount of childcare required (total number of children in the population multiplied by 24 hours a day) less any formal childcare, defined as hours in all paid childcare, whether it is registered or unregistered. The hourly cost of a child minder, using information from the Childcare Costs Survey undertaken by Family and Childcare Trust was used to value unpaid hours. However, the HHSA has not been used in macroeconomic policy making, nor does it seem to have been much used by women's organizations and feminist scholars. One reason may be that the output method used by ONS does not focus on the distribution of production between different household members, so it does not tell us the market value of unpaid child care produced by women as compared to men. It has the advantage of not undercounting the amount of child car produced.

Some countries have used an input method that starts from time use data and values time spent at what it would cost to pay someone to do the work instead. An example is Finland, where unpaid care and other household work was valued as equivalent to 39% of GDP in 2006. This is not directly comparable to figure for the UK because of the different method used. However, the information was not used by economists and did not appear in the official Statistical Yearbook, nor was it used by academics in women's studies; and there was widespread confusion in the press about the implications of the calculations which some people interpreted as intended to make a case for household members to be paid for the unpaid work they do[6].

Satellite accounts can be used to show that the economic value of unpaid care work is large in relation to GDP, but it is not clear what policy implications to draw from them. Is an increase in the economic value of unpaid household production a good thing, showing an increase in production that contributes to well-being, or should it be interpreted as an indicator that women are having to do more unpaid work? A leading pioneer of feminist discussion of the absence of unpaid care work from economic analysis was Marilyn Waring[7]. However, she said in one of her later interviews:

> It is not that I want to estimate its [women's unpaid work] monetary value. I want to make it visible for policy-making purposes, for fairness and equity. [8]

Highlighting the time spent on unpaid care work through regular time use surveys may be a better way of getting recognition of unpaid work and developing policy to address this. For instance, using time use data one can show that public spending is needed to reduce the burdens that unpaid work imposes on women and girls by public provision of clean water and sanitation, energy, housing, education, care and health. One can also show the unequal distribution of unpaid work in

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[5] https://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/compendium/householdsatelliteaccounts/2005to2014

[6] Varjonen, J. and Kirjavainen, L. (2014) 'Women's Unpaid Work Was Counted But….' In Bjornholt, M. and McKay, A. (eds) *Counting on Marilyn Waring. New Advances in Feminist Economics,* Demeter Press, Bradford, Ontario.

[7] Waring, M. (1989) *If Women Counted: A New Feminist Economics,* London: Macmillan.

[8] Quoted in Varjonen, J. and Kirjavainen, L. (2014) 'Women's Unpaid Work Was Counted But….' In Bjornholt, M. and McKay, A. (eds) *Counting on Marilyn Waring. New Advances in Feminist Economics*, Demeter Press, Bradford, Ontario.

households, and the importance of supporting care leave and other policies to redistribute unpaid care work[9].

Recognition of unpaid work through time use data can show how economic policies can result in false economies. For instance, it can appear that the same volume of services is being delivered with less money because of 'efficiency gains', but this can mask hidden costs in terms of unpaid work. For example, a longstanding hidden cost is the increase in unpaid care work that has to be done when patients are released from hospital after supposedly more efficient 'day' surgery, but still have to be looked after at home for several days by family or friends.

2. *Unequal impact of cuts to public expenditure and quantitative easing*

Feminist economists have argued that attempts to reduce a government budget deficit by cutting public expenditure are likely to impact more on women than on men. In the UK, this is because women tend make greater use of public services than men, linked to greater unpaid care responsibilities and greater use of care services; also a higher proportion of women's employment is in public sector than men's. Moreover, social security payments make up a greater share of women's incomes than men's, because women earn less in the labour market. As research by the Women's Budget Group has shown, Black and Minority Ethnic women are particularly hard hit[10]. The Treasury does not conduct and publish comprehensive equalities impact assessments of fiscal policy despite the availability of methods to do this.

Was there an alternative to expenditure cuts? When George Osborne became Chancellor of the Exchequer in the Coalition government in May 2010, he claimed that the high budget deficit he found when he came to office in May 2010 was evidence that the previous Labour Chancellor of the Exchequer had 'maxed out' the national credit card. He claimed that the ratio of public debt to GDP of around 70 % was proof that the previous government had overspent; and that therefore cuts to public spending were inevitable so that the nation could 'live within its means'. He was appealing to the 'common sense' view based on the situation of individuals: if you had 'maxed out' your credit card, what would you have to do? It seems obvious that you should cut your spending. If you obtain additional credit cards and/or borrow from 'pay-day lenders' this just postpones the problem, and you end up with higher and higher monthly interest payments.

However, the situation of a government is not the same as for an individual. If a person cuts their spending, this does not lead to a fall in their income. But if a government cuts spending, it can lead to a fall in the income that the government gets through tax revenue. This happens because the cuts in public spending lead to a fall in incomes for those who supply the public sector with goods and services, and for public sector employees (some of whom may lose their jobs). It also leads to a fall in income for recipients of social security benefits. All these people tend to reduce what they spend, which in turns reduce the incomes of other people and the profits of businesses. This means they will pay less in taxes and government tax revenue falls. The budget deficit and the debt to GDP ratio can worsen rather than improve. The Chancellor anticipated that his cuts to public spending would reduce the budget deficit to around £40 billion in 2014, but in fact it was forecast to be £90 billion, largely because tax revenues had fallen[11]. In the context of a recession, it makes sense to sustain

[9] Elson, D. (2017) 'Recognize, Reduce, and Redistribute Unpaid Care Work', *New Labor Forum*, 26(2), 52-61, https://doi.org/10.1177%2F1095796017700135

[10] Women's Budget Group and Runneymede Trust (2017) *Intersecting Inequalities: The Impact of Austerity on Black and Ethnic Minority Women.*

[11] UK Women's Budget Group (2014) Response to the Autumn Financial Statement 2014. http://wbg.org.uk/wp-content/uploads/2015/01/WBG-AFS-final.pdf

public spending to compensate for falls in spending by households and businesses, run a budget deficit and let debt rise until output, employment, and income has recovered.

The restrictive fiscal policy was supposed to be offset by an unprecedently loose monetary policy, with the Bank of England cutting Bank Rate to very low levels and introducing Quantitative Easing i.e. buying government bonds held by the private sector. This was supposed to stimulate private sector investment to offset the cuts to public expenditure. The problem is that this effect is not guaranteed. Instead the result has been an increase in prices of shares (an asset bubble), benefiting the owners of shares and of financial companies that deal in shares, who are disproportionately wealthy white men[12].

Adoption of rules and targets that constrain fiscal and monetary policy

Governments have increasingly adopted rules and targets that constrain macroeconomic policy and reduce the space for policy discretion[13]. They have done this in order to foster confidence in their management of the economy, not of their citizens, but of owners and managers of financial assets, who fear inflation, as that will tend to reduce the value of their holdings of government bonds. (They tend not to fear unemployment and inequality to the same degree, if at all).

Governments have also brought in financial deregulation that favours the same interests by allowing owners of financial assets to easily move them to another country ('capital flight') if they disapprove of a government's policies. Since 1997 a series of rules and targets have been adopted or proposed in the UK in the name of 'sound', 'prudent' and 'sustainable' macroeconomic policy, aimed at preventing a sudden withdrawal of short term international finance from the UK (' a run on the pound') and shoring up the ratings given to UK government bonds by international ratings agencies, so as to make it cheaper to borrow .

1. *The 'golden rule' for budgets: borrow to invest but not for day-to-day spending*

The 'golden rule' allows governments to finance net public investment through budget deficits i.e. by borrowing. The rationale is that net public investment increases the stock of assets and provides benefits for people in the future. Therefore, it is justified that future generations contribute to financing those investments via taxation to pay debt service. Future generations inherit the obligation to service public debt, but in exchange they receive a corresponding stock of assets that generate future incomes. The 'golden rule' has been a widely accepted concept in mainstream economics of public finance for decades.

It was introduced as a rule of fiscal policy in the UK under the Labour government in 1997 and was adhered to until the March 2008 budget. The rule stated that the government, over the economic cycle, would borrow in order to invest in physical infrastructure projects that produce fixed assets, such as buildings(including schools and hospitals) , roads, bridges, and railways etc (the capital account of the budget) but not to fund on-going day to day spending required to operate public

[12] As yet, there has been no research published on the gender impact of the Bank of England's QA but some research has been published on the gender impact of the QA undertaken by the European Central Bank : Young, B. (2018) 'The impact of unconventional monetary policy on gendered wealth *inequality'*. *Papeles de Europa,* 31(2) 175-86. http://dx.doi.org/10.5209/PADE.63637

[13] Governments of rich countries have done this of their own volition. Many governments in middle and low income countries have had to do this in order to meet conditions attached to loans from IMF. See D. Elson and T. Warneke (2011) 'IMF policies and gender orders: the case of the Poverty Reduction and Growth Facility' in B.Young, I. Bakker, and D. Elson (2011) *Questioning Financial Governance from a Feminist Perspective,* London: Routledge.

services and provide social security (the current account of the budget). It was accompanied by a 'sustainable investment rule', that public sector net debt should not exceed 40 % of GDP.

However, the financial crisis made it impossible to stick to these rules, as tax revenues collapsed. Huge cuts in current spending would have been necessary in order to stick to the 'golden rule' and it was suspended by the Labour government in the April 2009 budget to allow for a fiscal stimulus to offset the recessionary impact of the crisis. The Coalition government that came to power in May 2010 reversed that policy and introduced more restrictive targets, and the subsequent Conservative government tightened them even further [14].

The Conservative government elected in November 2019 modified the targets to give more room for borrowing to invest. In the March Budget 2011, prior to the measures taken to address Covid 19, they were stated as:

- to have the current budget (i.e. excluding capital spending) at least in balance by the third year of the rolling five-year forecast period
- to ensure that public sector net investment does not exceed 3 per cent of GDP on average over the rolling five-year forecast period
- if the debt-interest-to-revenue ratio is forecast to remain over 6 per cent for a sustained period, the Government will act to ensure the debt-to-GDP ratio is falling

According the Financial Times, these new rules would accommodate about £22bn of extra capital spending a year, though not much for tax cuts or increases in current spending.[15] But in any case, in his budget speech the Chancellor indicated that he intended to revisit the fiscal framework; and his subsequent responses to Covid 19 have ignored these rules.

In the election campaign of autumn 2019, the Labour Party also committed to rules that provide scope for greatly increased investment:

- Public sector net worth to be rising in value over the parliament
- Debt interest costs to be always lower than 10 per cent of tax revenue

This means that the limit to borrowing is not via an arbitrary target for the quantity of investment, but via the value of the assets that borrowing buys. It is a target for the value of the state's assets to grow faster that its liabilities[16]. According to the *Financial Times* these rules would accommodate Labour's plans for at least £55bn of additional capital spending a year[17].

Fiscal policy rules and targets are designed to manage expectations in financial markets. The precise numbers and dates are somewhat arbitrary, and in UK have been modified over time to reflect decisions on how far the Chancellor wants to expand or contract government spending. The modifications to the fiscal rules announced by both Conservative and Labour Parties in autumn 2019 are a response to the persistence of low interest rates, which makes public investment much easier to finance, but neither questions the definition of public investment and capital spending that is used in the public accounts. Capital spending accounts for a relatively small share of spending on

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[14] For details see Appendix B

[15] https://www.ft.com/content/0ebe442e-016f-11ea-be59-e49b2a136b8d

[16] Resolution Foundation (2019) Rewriting the Rules :Assessing Conservative and Labour's new fiscal frameworks. https://www.resolutionfoundation.org/publications/rewriting-the-rules/

[17] https://www.ft.com/content/0ebe442e-016f-11ea-be59-e49b2a136b8d

most major public services: in 2019 it was just 4.9 % of spending on NHS hospital services, and 6.6 % of spending on schools[18].

2. *Rules and targets that constrain monetary policy*

The Bank of England is given targets by the Chancellor of the Exchequer. Since 1997 it has had one target: an inflation target of 2 %, as measured by the Consumer Prices Index. If the target is missed by 1 percentage point either side of the target, the Governor of the Bank must write a public letter of explanation to the Chancellor. To try to achieve the target, the Bank raises Bank Rate when the Monetary Policy Committee judges that inflation is likely to rise above the target and lowers Bank Rate when the judgement is that inflation is likely to below the target.

The target was set at a time when the worry was that inflation might be high, but since the financial crisis in 2008, inflation has been very low. It is currently 1.7%. Low inflation is as problematic as high inflation, because it means that aggregate demand in the economy is low, and this makes it hard to create enough hours of paid employment for all who want them. As the Bank of England admits:

> Sometimes, in the short term, we need to balance our target of low inflation with supporting economic growth and jobs[19]

The mandate of the US Federal Reserve Bank is to promote full employment and reasonable price stability and the Fed does not have explicit targets. However, before the financial crisis of 2008 its focus was more on controlling inflation[20] . Most central banks are like the Bank of England and have only inflation targets, usually in the range 1 to 3 % [21].

Central Banks do have a degree of discretion in using other policy tools besides Bank Rate, and when inflation rates became very low and unemployment high after the 2008 financial crisis, the Bank of England, the Fed and the European Central Bank all introduced Quantitative Easing. The Bank of England also has the option of directly providing finance to the UK government by increasing the size of the funds held in the government's bank account with the Bank of England. This is a bit like increasing the size of the government's overdraft facility. This was used in the 2008 financial crisis, and is being used again in the 2020 covid 19 crisis, with an undisclosed amount of extra money made available to the government, to be paid back before the end of 2020[22].

Creating a fiscal and monetary policy framework that supports gender equality

Feminist economists have argued that macroeconomic policy needs to look beyond the level and growth of national output and income, employment and unemployment, and inflation to directly address the wellbeing and human rights of people[23]. One way to do that is to require that fiscal and monetary policy comply with the international human rights obligations of government. Only

[18] https://www.instituteforgovernment.org.uk/blog/parties-new-fiscal-rules-dont-address-challenges-public-services
[19] https://www.bankofengland.co.uk/monetary-policy
[20] Balakrishnan, R. and Heintz, J. (2011) 'Human rights dimensions of fiscal and monetary policy: United States' in Balakrishnan, R. and Elson, D. (eds) *Economic Policy and Human Rights,* London: Zed Books.
[21] Epstein, G. and Yeldan, E. (2008) 'Inflation targeting, employment creation and economic development: assessing the impacts and policy alternatives', *International Review of Applied Economics* 22(2) 131-44.
[22] *The Guardian*, 9th April 2020
[23] Balakrishnan, R., Heintz, J. and Elson, D. (2016) *Rethinking Economic Policy for Social Justice,* London: Routledge; Seguino, S. (2019) 'Tools of Macroeconomic Policy: Fiscal, Monetary and Macroprudential Approaches ' in Elson, D. and Seth, A. (eds) *Gender Equality and Inclusive Growth*, New York: UN Women.

policies that are in compliance should be considered and these obligations should supersede any other rules and targets[24].

The CEDAW Committee[25] has indicated on a number of occasions that states have obligations to use economic policy measures, such as policy on public expenditure, to fulfil women's equality rights. For example, the CEDAW Committee found in 2013 that cuts to public services and social security were having a negative impact on women (particularly older women and women with disabilities) in the UK. The Committee urged the UK government 'to mitigate the impact of austerity measures on women and the services provided to women, especially women with disabilities and older women. It should also ensure that spending reviews continuously focus on measuring and balancing the impact of austerity measures on women's rights'[26].

The International Covenant on Economic, Social and Cultural Rights (ICESCR) obliges states to mobilise 'the maximum of available resources, with a view to achieving progressively the full realisation of the rights recognised in the present Covenant' (Article 2(1). The reference to 'maximum available resources' is now widely understood to encompass the deployment of fiscal and monetary policy to mobilise resources through taxation and borrowing , to support the creation of paid employment for all who want it, and to avoid disruptive financial crises[27] .

Human Rights obligations provide another standard to set in dialogue with existing fiscal and monetary rules, in which 'sound finance' is not the priority objective but realisation of human rights. They have been used by the Children's Commissioner for England to challenge austerity policies[28] . The UN Independent Expert on the effects of foreign debt on the full enjoyment of all human rights has used human rights standards to criticise the impact of austerity measures on women's rights[29]. Of course, human rights standards cannot answer all questions about macroeconomic policy, but they provide a framework for narrowing down the range of policies that should be considered and require decisions to be taken through a democratically accountable process, through open and informed public dialogue[30].

Elements of a feminist macroeconomic policy

Dialogue on this could include:

1. *Reframing fiscal policy to accommodate investment in social infrastructure*

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[24] The following paragraphs draw on Elson, D. (2018) Securing the Social and Economic Rights of Women in Economic Policy Making in Reilly, N. (ed.) *Human Rights of Women,* Springer.

[25] The CEDAW Committee monitors compliance with the Convention on the Elimination of All Forms of Discrimination Against Women

[26] UNCEDAW (2013) Concluding observations on the seventh periodic report of the United Kingdom of Great Britain and Northern Ireland. UN Doc CEDAW/C/GBR/CO/7, para 21. http://undocs.org/CEDAW/C/GBR/CO/7

[27] Balakrishnan, R., Elson, D, Heintz, J. and Lusiani, N. (2011) *Maximum Available Resource and Human Rights,* Center for Women's Global Leadership, Rutgers University.

[28] Office of the Children's Commissioner (2013) *A Child Rights Impact Assessment of Budget Decisions: including the 2013 Budget, and the cumulative impact of tax-benefit reforms and reductions in spending on public services 2010 – 2015*

[29] Report of the Independent Expert on the effects of foreign debt (2018) *Impact of economic reforms and austerity measures on women's human rights,* UN General Assembly, A/73/179 https://documents-dds-ny.un.org/doc/UNDOC/GEN/N18/229/04/PDF/N1822904.pdf

[30] Balakrishnan, R., Heintz, J. and Elson, D. (2016) *Rethinking Economic Policy for Social Justice*, London: Routledge, p. 8.

In economic theory, investment can be broadly defined as spending that creates a future stream of benefits. But accounting conventions used in constructing the GDP and the capital and current accounts of the government budget define public investment more narrowly in terms of spending on fixed assets that deliver benefits over many fiscal years, and it is this definition that underpins the various fiscal rules and targets set out above. Spending on the day to day expenses of running public services and providing social security is not counted as investment, even though this too produces not only immediate benefits within a particular fiscal year but a stream of wider benefits over time.[31]

For instance, public spending on delivering education services is classified as current expenditure in the existing system of national accounts and is part of the current account of the budget (though building new schools is public investment and counts as capital spending). The application of the fiscal rules would allow a government to borrow to build new schools, nurseries, clinics and hospitals, but not to borrow to enable them to be used for education and care and health services. This ignores the fact that the future returns, in terms of wellbeing and in terms of enhanced productivity and economic growth are produced by the teaching and care that goes on within them. But building the school or the hospital is defined as investment, while staffing and equipping them is regarded as a cost, and there has been continuing pressure from the Treasury to minimise these costs in the period since 2010.

The fiscal rules adopted by both Conservative and Labour Parties in 2019 run the risk of overspending on physical infrastructure and underspending on the staff and equipment required to use that infrastructure, though at least the Labour Party committed to raising taxes to fund higher current spending. Well designed and well-resourced public services help to produce well-nourished, healthy, well-cared for, well-educated people, able to work more productively, and enjoy higher well -being. They provide systems of provision that reduce individual risk and provide reassurance that good quality services will be available if needed. WBG refers to spending on public services as spending on social infrastructure, and this terminology has been increasingly adopted. For instance, Nicola Sturgeon, First Minister of Scotland, said on 15 November 2014:

> Our flagship infrastructure project in this parliament has been the new Forth Bridge-the Queensferry crossing. I want to make one of our biggest infrastructure projects for the next parliament a different kind of bridge. I want it to be comprehensive childcare, giving our young people the best start in life and a bridge to a better future. [32]

Publicly provided childcare is particularly capable of increasing productivity, and thus enhance future national income which can be taxed to generate revenue to service public debt. There should be no bar on borrowing to finance delivery of such services, so long as the returns to the investment as measured by their contribution to future revenue growth are greater than prevailing interest rates. Such investment must not be prevented by out of date accounting conventions and arbitrary fiscal rules. Some forms of investment in social infrastructure, such as social care, may not have a big impact on future productivity though they do have a big impact on current wellbeing, and revenue raising measures will have a bigger role to play in funding them.

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[31] De Henau, J. et al (2016) *Investing in the Care Economy*, Report by UK Women's Budget Group for ITUC https:www.ituc-csi.org/IMG/pdf/care_economy_en.pdf . Heintz, J. (2019) 'Public Investments and Human Investments: Rethinking Macroeconomic Relationships from a Gender Perspective' in Elson, D and Seth, A. *Gender Equality and Inclusive Growth*, New York: UN Women. http://www.unwomen.org/en/digital-library/publications/2019/01/gender-equality-and-inclusive-growth

[32] www.bbc.co.uk/nes/uk-scotland-scotland-politics-30068370

There is a case for some fiscal policy guidelines to anchor expectations. A target for public sector net worth to be rising in value, as suggested by the Labour Party, is an improvement on arbitrary numerical targets for borrowing or investment, but net worth needs to be looked at in terms of value of systems of provision, not value of fixed assets.

2. *Extension of the range of objectives and indicators*

Currently the main objectives are economic growth as measured by GDP, full employment as measured by national employment and unemployment rates, and low inflation, as measured by the Consumer Price Index. Some governments are now adopting a wellbeing objective (see Briefing Paper on Wellbeing), but to operationalise this, new national level indicators are needed because GDP is not a wellbeing indicator. It is an indicator of the output produced by the private and public sectors in a particular country. It includes outputs that are harmful to human wellbeing and the wellbeing of the planet, such as outputs that result in pollution.[33] One for a candidate for a macro level wellbeing indicator is the Genuine Progress Indicator, the only aggregate indicator that incorporates care for human beings and care for the environment in a single framework[34]. It has not yet been adopted by any government, but researchers have calculated it for at least 17 countries, and there is a lively debate about its advantages and disadvantages and ways in which it might be improved.

Employment and unemployment rates refer to paid work, but they are not good indicators of the quality of paid work opportunities. For instance, they are not adjusted for hours of work, and can thus mask underemployment, when people want more hours of work than is available. An estimate by the TUC looked at how many workers across the economy want more hours in their existing jobs as well as the regularly published measure of the number of workers in part-time jobs who want to work full-time. It found that just under 3.3 million people were underemployed in early 2015 – over 900,000 higher than it was before 2008.[35] Reducing underemployment should also be a policy goal-which can supported by more expansive macroeconomic policy to support creation of more hours of work and support payment of higher hourly wages.

As well as too few hours of work, much employment is also precarious. The TUC estimates one-in-nine (3.7 million) workers are in insecure work. This includes low-paid self-employed, agency, casual and seasonal workers, and those on zero hours contracts.[36] Improving labour market regulation to strengthen workers right is vital but needs to be complemented by a more expansive macroeconomic policy.

Indicators of employment, unemployment, underemployment and precarious work can be constructed by gender and race, and gaps as well as levels should be monitored. Women's employment rates are at an all -time high in UK, but much of this work is low paid and precarious.

Current objectives and indicators do not cover unpaid work. For reasons mentioned above, construction of a satellite account that puts a market value on unpaid work and calculates the total money value of unpaid household production, does not seem to me to be a priority. Among other things, it is not clearly linked to a policy objective. I suggest that the policy objective should be the

[33] For an extensive critique of the problems with GDP, see Stiglitz, J., Sen, A. and Fitoussi, J. P (2009) *Report by the Commission on the Measurement of Economic Performance and Social Progress,* Paris. http://www.stiglitz-sen-fitoussi.fr/documents/rapport_anglais.pdf

[34] Berik, G. (2018) *Towards More Inclusive Measures of Economic Wellbeing: Debates and Practices,* ILO Future of Work *Research* Paper Series, Geneva ILO.

[35] https://www.tuc.org.uk/news/high-underemployment-means-full-jobs-recovery-still-long-way-says-tuc

[36] https://www.tuc.org.uk/research-analysis/reports/insecure-work

redistribution of unpaid care work, measured by time use data (which would need to be collected on a more regular basis). One candidate for an indicator of redistribution might be share of unpaid care work done by men and boys, which should rise.

3. *Further ways to expand of fiscal space for gender equality*

Fiscal space is a concept widely used in development economics and is defined by ILO, UNICEF and UNWOMEN as the resources available as a result of the active exploration and utilization of all possible funding sources by a government. [37] These include changing expenditure priorities, new measures to collect more revenue, and new ways of borrowing. Note that there is no implication that the government must first accumulate funds before it spends.

In the UK, spending that is important for gender equality already takes up a large share of public expenditure. In 2020/21 the budget was allocated as follows[38]:

> Social protection £285bn Personal social services £36bn Health £178bn Education £116bn Housing and environment £32bn Industry, agriculture, employment £30bn Transport£44 bn Defence £55bn Public order and safety £38bn Other £58bn Debt interest £56bn

Perhaps some expenditure could be reallocated from military spending to services directly linked to gender equality issues. Some countries have succeeded in reallocating expenditure from military to uses more supportive of gender equality. For instance, Thailand introduced a Universal Health Care Scheme in 2001 that was partly financed by reducing military expenditure from around 15% cent of total expenditure during the 2000s and to just over 7 % in 2015. [39] Within each category of spending, it may also be possible to reallocate from low priority to high priority spending. The approach to gender budgeting in Andalucía in Spain has focussed on identifying which spending should have highest priority[40] and there may be lessons to learn from this.

Several new ways to collect more revenue have been identified in the Commission Briefing Paper on Wealth, Tax and Gender, and the Commission Briefing Paper on Taxation and Social Security which will not be repeated here. The latter paper also notes: 'It may help to make explicit the connections between tax and the social expenditure it pays for. Having hypothecated taxes is one way to do that, though there are also dangers in tying funds to a particular use over the long term'. I think this merits more exploration. People do seem to have a different view of National Insurance Contributions than other of other revenue raising measures, because it is labelled as a contribution, and is understood as funding pensions and the NHS (even though that is not strictly correct). It is worth discussing other possible Contributions. One idea, to generate revenue to fund a National

[37] Ortiz, I. et al (2019) *Fiscal Space for Social Protection,* Geneva: ILO.
[38] HM Treasury (2020) *Budget 2020*, p. 7 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/871799/Budget_2020_Web_Accessible_Complete.pdf
[39] Duran-Valverde, F.; Pacheco, J. F. (2012) Fiscal space and the extension of social protection: Lessons from developing countries, Extension of Social Security (ESS) Paper No. 33, Geneva, International Labour Organization.
[40] Diaz, B et al (2017) 'GRB Initiative in Andalusia: Reconciling Gender Equality and Economic Growth Perspectives' in Z. Khan and N. Burn (eds) *Financing for Gender Equality,* London: Palgrave Macmillan

Care Service, is that everyone contributes 15% of their assets on retirement, usually through equity release on their property, and the state pays for those without assets[41].

Ideas for Innovative forms of borrowing have been developed by those working on a Green New Deal. Ann Pettifor has suggested that the government could issue Green New Deal Bonds, to be sold to pension companies, insurance companies, and other businesses (as regular government bonds already are). In addition, tax incentives for savings vehicles, such as ISAs, could be conditional on holding Green New Deal Bonds. Holdings to the value of £85,000 would be backed up by the government through the Financial Services Compensation Scheme which currently guarantees personal bank deposits. The Bank of England Quantitative Easing programme could also purchase Green New Deal Bonds in case of any shortfall of demand. Can we perhaps explore the possibilities of Care Bonds?

4. *Development of monetary policy and financial regulation to support gender equality*

When central banks have a single target for low inflation this can lead to monetary policy that raises interest rates, at the expense of employment creation and public investment, undermining support for gender equality. Central banks would be more capable of supporting gender equality if they had a wider range of targets, such as achieving employment objectives, and used a wider range of tools[42]. At the moment an unbalanced focus on bringing down inflation is not likely to be a problem at the Bank of England, as inflation is well below the target rate of 2 %. But this may not always be the case, so it would be a good idea to add employment objectives. In addition, the Bank of England could incentivise commercial banks to lend for gender equality priority areas using asset -based reserve requirements, which require commercial banks to hold a stipulated proportion of their loans in high priority areas or hold the same proportion of their assets in non-interest bearing reserve accounts. (This tool could also be used to incentivise banks not to lend for investments with negative impact on well-being, such as for fossil fuels).

Central banks have responsibilities for the overall regulation of the financial institutions operating in their jurisdiction. These regulations need to be strengthened to prevent disruptive financial crises, and capital management techniques need to be explored to restrict the ability of holders of financial assets to move them rapidly across international borders. The Bank of England and the Treasury should cooperate with counterparts in other countries to reform the international financial system so that it supports equality and sustainability. There are limits to what can be achieved in one country acting alone.

[41] Toynbee, P. (2020) Coronavirus has exposed the gaping holes in social care. But it is also a chance for change, The Guardian, 14 April. https://www.theguardian.com/commentisfree/2020/apr/14/coronavirus-social-care-crisis-andy-burnham-nhs

[42] Seguino, S. (2019) 'Tools of Macroeconomic Policy: Fiscal, Monetary and Macroprudential Approaches' in Perspective' in *Elson, D and Seth, A. Gender Equality and Inclusive Growth*, New York: UN Women. http://www.unwomen.org/en/digital-library/publications/2019/01/gender-equality-and-inclusive-growth

Appendix A Key Features of Macroeconomic Policy

1. Macroeconomic policy objectives

Though there has been widespread agreement among economists about objectives, there is disagreement about how best to achieve them. Broadly speaking, some economists (such as Keynesians) think this is best achieved by an active use of fiscal policy to counteract booms and busts; and to use public spending to create an educated and healthy labour force, and transport and communication infrastructure, that will incentivise private sector investment. This was the main approach in the 30 years after 1945. But other economists ('neoclassical' economists) think that public investment will displace private investment, and that the best way to incentivise private investment, and to support economic growth, is to keep public spending low, and keep interest rates and inflation low. This approach came to dominate in the last 40 years, though the evidence supporting it is weak. It restricts fiscal space for policies to address poverty and inequality.

The most prominent macroeconomic policy instruments are fiscal policy, conducted by the Ministry of Finance (in the UK, the Treasury) and monetary policy, conducted by the Central Bank (in the UK the Bank of England). Though aspects of spending and taxation have been devolved to the regional governments, especially to Scotland, macroeconomic policy remains in the hands of UK level institutions, as the devolved governments are supposed to balance their budgets, have very limited borrowing powers, and have no monetary policy powers. .

2. Fiscal policy, deficits and debts

Fiscal policy instruments comprise measures to raise revenue, to spend and to borrow. In UK, revenue amounted to 36.9 % of national income in 2019/20. Taxes are the most important instrument, raising 93% of revenue in 2019/20[43] . Spending mainly goes on the day-to-day costs of providing public services, on capital investment and on cash transfer payments that support the incomes of various individuals and families through the social security system. Government expenditure amounted to 38.2 % of national income in 2019/20.[44] The UK government raises somewhat less revenue relative to national income than the majority of other high income countries – more than the US, Japan and Korea, but less than Scandinavian countries like Finland and Norway. Public spending as a share of national income in the UK is close to the average – the UK spends much more than the US and Korea, but much less than Finland or France.[45]

When total spending in a year is higher than total receipts, the government usually borrows (by selling government bonds) to cover the difference. A bond promises to pay the buyer small cash payments, set at a fixed rate, usually twice a year until the bond matures, when the buyer also gets back the initial cash value of the bond. Bonds can have a lifetime as short as three years or last for decades and can be sold by the original buyer to other buyers via the London Stock Exchange.

The gap between spending and receipts is known as the budget deficit or 'public sector net borrowing'. When receipts are higher than spending, the government runs a surplus. The UK budget has been in surplus in only 12 years since 1948 and only five years since 1971-72.[46]

Movements in the budget deficit are in part the result of the ups and downs of the economy. When the economy is growing, other things being equal, the deficit will be lower as taxes flow in and social

[43] OBR (2019) A Brief Guide to the UK Public Finances. p. 3
[44] OBR (2019) A Brief Guide to the UK Public Finances p. 4
[45] OBR (2019) A Brief Guide to the UK Public Finances p. 9
[46] OBR (2019) A Brief Guide to the UK Public Finances, p. 6

security spending costs are reduced. The opposite is true when the national output and income is falling. Following the financial crisis in 2008, the UK budget deficit rose dramatically to almost 10% of national income[47] as a result of the recession that followed the crisis.

The 'structural' (or 'cyclically- adjusted') budget deficit is an estimate of how large the deficit would be if the economy was operating at a 'normal', sustainable level of employment and activity. But economists never know precisely what this 'normal' level would be, so these estimates are always uncertain. In 2010, the structural budget deficit would have been considerably smaller than the actual deficit, but the Coalition government decided to adopt a policy of fiscal consolidation- dramatic cuts in public expenditure which it hoped would reduce the budget deficit.

The response to the corona virus epidemic, has been different, and expenditure has been increased: national output and income in 2020 will fall and the budget deficit will rise, but the structural deficit will not be much affected and will be much lower than the deficit in cash terms. The deficit in cash terms will be automatically reduced when output and income recover.

If the public sector runs a deficit in a particular year, debt will rise in cash terms. But it can still fall as a share of national income if the latter is growing sufficiently strongly. UK public sector net debt relative to national income rose following the financial crisis to reach a peak in 2016-17 at 85.1 %.[48] UK has been running a budget deficit larger than the average for high income countries and so net debt in the UK in 2017 was higher than the average of other high income countries . As a result of policy responses to the corona virus epidemic, net debt in UK is bound to rise in relation to national income, and eventually there will probably be tax increases to pay down some of the debt, though this can take place over a very long time period, and should not happen until the economy is generating enough secure paid work .

3. Monetary Policy, Bank Rate and Quantitative Easing

Monetary policy instruments generally comprise measures to influence how much credit is in the economy, how much it costs to borrow, and, sometimes, how credit is distributed; and to regulate the behaviour of private sector financial institutions.

Although the Central Bank issues banknotes, the main source of money is the private banking sector. As the Bank of England analysts have pointed out:

> In the modern economy, most money takes the form of bank deposits. But how those bank deposits are created is often misunderstood: the principal way is through commercial banks making loans. Whenever a bank makes a loan, it simultaneously creates a matching deposit in the borrower's bank account, thereby creating new money. [49]

The reality of how money is created today differs from the description found in some economics textbooks: Rather than banks receiving deposits when households save and then lending them out, bank lending creates deposits. In normal times, the central bank does not fix the amount of money in circulation, nor is central bank money 'multiplied up' into more loans and deposits.

In return for this ability to create money, banks must comply with prudential regulations requiring them to hold sufficient capital in reserve and have risk controls in place. To maintain their capital at

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[47] OBR (2019) A Brief Guide to the UK Public Finances, p. 6
[48] OBR (2019) A Brief Guide to the UK Public Finances, p.8
[49] M. McLeay, A. Radia and R. Thomas, 'Money Creation in a Modern Economy', Bank of England Quarterly Bulletin, 2014 Q1. https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2014/money-creation-in-the-modern-economy Thanks to Ann Pettifor for this reference

the required level, they may borrow funds overnight from the Central Bank for which they are charged interest.

The Central Bank sets the Bank Rate, the rate of interest it charges to private sector banks, and this in turn influences interest rates throughout the economy. Since the 2008 financial crisis, Central Banks have kept their Bank Rate low in an attempt to shore up the banking system and stimulate private investment and household spending. The Bank Rate in the UK in January 2020 was 0.75%. In response to the covid 19 epidemic, it was reduced to 0.1 % [50] by April 2020.

The financial crisis in 2008 was able to occur because from the 1980s onwards new kinds of systemic risk were created through financial deregulation, financial innovation and the growth of non-bank financial firms, risks which neither private sector banks nor Central Banks recognised. This more risky financial system interacted with deepening gender, race and class inequalities to produce a crisis with global implications.[51] In this crisis, the leading Central Banks acted as Lenders of Last Resort, to ensure that the financial system did not collapse, safeguarding people's savings, but also bailing out the commercial banks.

Following the financial crisis in 2008, leading Central Banks have also created digital money to buy corporate and government bonds- a process known as Quantitative Easing.[52] The Bank of England explains it thus:

> Suppose we buy £1 million of government bonds from a pension fund. In place of the bonds, the pension fund now has £1 million in money. Rather than hold on to this money, it might invest it in financial assets, such as shares, that give it a higher return. And when demand for financial assets is high, with more people wanting to buy them, the value of these assets increases. This makes businesses and households holding shares wealthier – making them more likely to spend more, boosting economic activity.

Another round of QE was announced by the Bank of England in March 2020, bringing the total to £645 billion since November 2009.

4. Accountability of the Treasury and the Bank of England

The Treasury is probably the most powerful government department. There has never been a female Chancellor of the Exchequer, though at times some of the other Treasury Ministers have been women. In March 2020, the Chancellor, the Chief Secretary to the Treasury and the Financial Secretary to the Treasury were men. One of the two junior ministers was a woman.

Formal procedures to hold the Treasury accountable operate through parliament and through the Office for Budget Responsibility. The Chancellor of the Exchequer has to answer parliamentary questions, and to appear before the cross-party Treasury Select Committee. Women made up the majority of the Committee in March 2020, 8 compared to 3 men. This Committee draws on evidence from independent experts, including from the Women's Budget Group, and produces reports on fiscal policy that are often critical and have recommendation for changes. In its report on the 2018 Budget, it called for the Treasury to publish equalities impact assessments, including gender

[50] http://www.bankofengland.co.uk/monetary-policy/the-interest-rate-bank-rate
[51] S. Fukuda-Parr, J. Heintz, S. Seguino (eds) (2013) Special Issue; Critical and Feminist Perspective on Financial and Economic Crises, Feminist Economics 19(3). Young, B. (2019) 'A Macro-level Account of Money and Credit to Explain Gendered Financialization, New Political Economy.
[52] https://www.bankofengland.co.uk/monetary-policy/quantitative-easing

equality.[53] But the Chancellor of the Exchequer is under no obligation to comply with recommendations from the Committee and the Treasury did not produce equalities impact assessments for the budget in 2019 and 2020.

The Treasury is held accountable for its technical analysis and for meeting its fiscal targets by the economists at the Office for Budget Responsibility, set up by the Coalition Government in 2010, and funded by the Treasury. [54]The International Monetary Fund estimates that there were similar institutions in 37 countries in 2016.[55] The OBR publishes regular reports on UK fiscal policy. All the senior staff of the OBR appear to be men.[56]

Informal channels of accountability operate through the critical reports published by large think tanks such as the Institute for Fiscal Studies, and the Resolution Foundation, which are currently headed by men. The Women's Budget Group publishes critical reports on the gender and other equalities dimensions of fiscal policy, which are used by the Treasury Select Committee, by MPs and by the media.

The Bank of England, like most Central Banks, is now independent, in the sense that it is responsible for making key decisions on monetary policy, not simply implementing monetary policy.[57] The Bank is self-funding.[58] However, the Governor of the Bank is appointed by the Chancellor, who also appoints four external members of the Monetary Policy Committee (MPC). This is the Committee that decides the Bank Rate. It is made up of nine members – the Governor, the three Deputy Governors for Monetary Policy, Financial Stability and Markets and Banking, the Chief Economist and the four external members, who are usually academic experts on macroeconomic policy. There has never been a female Governor. There is currently one woman on the MPC, one of the external experts.[59] Minutes of the meetings of the Committee are publicly available, together with the voting record of members.[60] The Governor and other senior staff must appear periodically before the Treasury Select Committee to answer questions about their policy decisions. Monetary policy does not face the same scrutiny from think tanks as fiscal policy; nor does the WBG address monetary policy. Perhaps this is because is more difficult to show the impact of monetary policy decisions on individuals and households than it is to show the impact of fiscal policy. Some research has been done on the gender impact of monetary policy in a group of industrialised and semi-industrialised developing countries. It found that where central banks responded to inflation by raising real interest rates there was more likely to be a contraction in employment, which hit women harder than men. [61]

While it would be good to have more women in key decision-making roles at the Treasury and the Bank of England, this by itself would not ensure that macroeconomic policy is more supportive of a gender equal economy. To achieve that, it is necessary to transform the objectives of policy and the

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[53] https://publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/1606/160602.htm

[54] https://obr.uk/about-the-obr/what-we-do/
[55] https://obr.uk/topics/international-engagement/
[56] https://obr.uk/about-the-obr/what-we-do/
[57] The decision to make the Bank of England independent was taken by Gordon Brown when he became Chancellor of Exchequer in 1997
[58] https://www.bankofengland.co.uk/about/governance-and-funding
[59] https://www.bankofengland.co.uk/about/people/monetary-policy-committee
[60] https://www.bankofengland.co.uk/about/people/monetary-policy-committee
[61] Braunstein, E. and Heintz J. (2011) 'Central Banks, Employment and Gender in Developing Countries ' in B. Young, I. Bakker, and D. Elson (2011) *Questioning Financial Governance from a Feminist Perspective*, London: Routledge.

underlying theories of how the economy works. There has been some rethinking of macroeconomic theory among mainstream academic economists , provoked by the 2008 financial crisis but it does not seem to have had much influence on policy and though it does not ignore gender completely, gender issues are at the margins[62].

Analysis by feminist economists has shown that upward convergence of women's average wages to those of men plus public investment in both social and physical infrastructure leads to an increase in output, and employment of both men and women increase both in the short and the medium-run. However, public debt/GDP increases in the medium-run in this policy mix, and an increase in tax rates is required if it is desired to bring down the ratio of public debt/GDP. An increase in the progressivity of income taxation in the form of increasing the tax rate on capital income and decreasing the tax rate on labour income increases output, men's and women's employment, and decreases public debt/GDP in both the short and the medium-run[63].

Appendix B Fiscal Policy Rules and Targets 2010-2019

The Coalition government introduced the Charter for Budget Responsibility and set up the Office for Budget Responsibility to monitor the Treasury's compliance with the Charter, which was enacted in 2011. The restrictive targets announced in the Budget on June 2010 were[64]:

- a target to achieve cyclically-adjusted current balance by the end of the rolling, five-year forecast period
- a target for public sector net debt as a percentage of GDP to be falling at a fixed date of 2015-16

These were modified to be even more restrictive by the Conservative Government in 2016[65] :

- a target to reduce cyclically-adjusted public sector net borrowing to below 2% of GDP by 2020-21- this applies to the whole budget not just the current budget
- a target for public sector net debt as a percentage of GDP to be falling in 2020-21
- a target to ensure that expenditure on 'welfare benefits' (which does not include pensions) in 2021-22 is contained within a predetermined cap and margin set by the Treasury in the Autumn Statement 2016

Note that these fiscal rules do not prescribe the balance of tax rises and expenditure cuts, but the Coalition and Conservative governments chose to make expenditure cuts bear the weight of the adjustment and apart from a rise in VAT to 20% in June 2010 , introduced many tax cuts, including to income tax and corporation tax, as discussed in successive WBG reports .

Fiscal targets would also have been adopted by a Labour government, should they have come to power. In 2017 the Labour Party announced 'Labour's Fiscal Credibility Rule' [66] :

- closure of the deficit on current spending over 5 years
- ensure government debt is falling at the end of five years
- borrow only to invest

[62] www.rebuildingmacroeconomics.ac.uk
[63] Ozlem, O. et al (2019) 'The effects of gender inequality, wages, wealth concentration and fiscal policy on macroeconomic performance'. Greenwich Papers in Political Economy, University of Greenwich. https://www.gre.ac.uk/business/research/centres/gp...
[64] HM Treasury (2011) Charter for Budget Responsibility
[65] HM Treasury (2016) Charter for Budget Responsibility: Autumn 2016 update, p. 7
[66] https://labour.org.uk/wp-content/uploads/2017/10/Fiscal-Credibility-Rule.pdf

The rules were defended as follows:

> Labour believe that, in the medium to long term, governments should not need to borrow to fund their day-to-day spending. While there are exceptional times when shocks from the private sector mean that government has to step in to help, everybody knows that if you're putting the rent on the credit card month after month, things needs to change. …..It is essential for our future prosperity that we retain the ability to borrow for investing in capital projects which over time will pay for themselves. Labour recognises the need for investment which raises the growth rate of our economy by increasing productivity as well as stimulating demand in the short term.