Changing the Conceptual Framework to Integrate Gender into Macroeconomic Policies

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Introduction

The budget, on the face of it, appears to be a gender-neutral policy instrument. It is set out in terms of financial aggregates – totals, and sub-totals of expenditure and revenue, and the resulting budget surplus or deficit. As usually presented, there is no particular mention of women, but no particular mention of men either.

However, this appearance of gender-neutrality is more accurately described as gender-blindness. The way in which the national budget is usually formulated ignores the different, socially determined roles, responsibilities, and capabilities of men and women. These differences are generally structured in such a way as to leave women in an unequal position in relation to the men in their community, with less economic, social and political power.

The presence of gender differences and inequalities means that a gender-blind budget in practice tends to have different impacts on men and women, boys and girls; and in turn they tend to have different responses to the budget. Depending on how the budget, and the public services which it finances, are structured, the outcomes for men and women can be unequal. For instance, although the education budget of a country may have no intention of favouring boys over girls, the actual outcome may in fact favour boys over girls, as the data in Box 1 shows.

Box 1 **Incidence of Public Expenditure on Education**

	Public expenditure per male	**Public expenditure per female**
Pakistan	56 rupees	26 rupees
Kenya	670 shillings	543 shillings

Source: World Bank, 1995:27

If the budget is gender-blind, then this not only contravenes goals of gender equality, it also makes it more difficult for the budget to have positive impacts on economic growth and human development. A gender-sensitive budget makes good economic sense, because it enhances the contribution the budget can make to economic growth, human development and to the empowerment of women. This is discussed in more detail in the companion to this paper.[1]

The existing conceptual frameworks and statistics used to create budget scenarios are gender-blind. They fail to recognise that:

- women's contribution to the macroeconomy is underestimated because of missing and biased markets and incomplete statistics;
- there is an unpaid economy (which has been variously labelled "domestic", "social reproduction", "reproductive") in which women do most of the work of maintaining the labour force and keeping the social framework in good order – both vital services for the paid economy.

- the parameters of aggregate production, savings, investment, imports and exports in the paid economy may be sensitive to different patterns of gender relations and gender distribution of resources.

Research is under way to develop gender-sensitive conceptual frameworks and national economic statistics which can reveal linkages and feedback between gender relations and macroeconomic outcomes.[2]

Here we draw upon that research to clarify a conceptual framework within which the issue of a gender-sensitive budget may be approached, with emphasis on:

- measuring women's contribution to the economy
- engendering macroeconomic models
- gender and budget strategy

Measuring Women's Contribution to the Macroeconomy

More of women's work than of men's work is not counted by national economic statistics because a great deal of women's work does not take place in large market oriented formal sector establishments. Instead it consists of:

- subsistence production
- informal sector employment
- domestic or "reproductive" work
- voluntary community work

Subsistence production is the production for home use of goods which in principle could be marketed – such as food, clothing, pottery. In principle it should be included in the measurement of the gross national product (GNP). But in practice it is frequently omitted because statistical surveys do not properly count it.

Informal sector employment is market-oriented employment in small workshops, family businesses, subcontracted work undertaken in the home ("homeworking") and work as domestic servants. It includes three types of occupational status – employee, self-employed, (both of which are paid) and unpaid family worker (in which the worker does not herself receive money) but the family member (often the male household head) directing the business does receive payment. In principle, informal sector employment should be included in the gross national product, but like subsistence production, it is often omitted because of the shortcomings of statistical surveys.

Domestic work or "reproductive work" is the work of managing a household, cooking, cleaning, fetching fuel and water, keeping home, clothing and domestic equipment in good repair, and caring for family members and friends and neighbours. In principle, it is excluded from the gross national product: it is defined in the UN System of National Accounts as lying outside the production boundary. But it is vital for keeping the social framework in good repair, and for maintaining and reproducing the labour force.

Voluntary community work includes unpaid activity in all kinds of civic associations, both secular and church based. It includes everything from self-help groups of mothers getting together to run a children's play group or secure improvements in neighbourhood safety, to support work for large international charities. Again these activities are in principle excluded from the GNP and often are regarded as leisure activities. But for many poor people, especially poor women, such activities are vital to get access to necessary resources and provide some security. Voluntary work makes a vital contribution to sustaining the social framework, particularly the sense of civic responsibility.

Reproductive work and voluntary community work could in principle be done by men or women – but these kinds of work have been socially constituted as more the responsibility of women than men in most countries.

As reported in the Special Issue of *Feminist Economics* November 1996, a great deal of progress is being made in many countries in measuring women's subsistence and informal sector activity, so as to include it in the GNP; and in measuring women's domestic or reproductive work and voluntary work so as to construct a satellite account measuring unpaid output. (See Box 2 for estimates of the market value of women's unpaid work in relation to GNP).

Box 2 **Accounting for the unpaid economy**

- Estimates for developed countries suggest that unpaid work produces an output equivalent to at least half of GDP.
- Global estimates suggest that women's unpaid work produces an output of $11 trillion, compared to a global GDP of about $23 trillion.

Source: UNDP, 1995:97

Neither national accounts nor satellite accounts in themselves, can indicate what policies are appropriate. A conceptual framework or model is required in which to use them. But statistics are important for making inputs and outputs visible – without this visibility it is difficult to get them included in models and seen as significant by policy-makers.

Engendering Macroeconomic Models

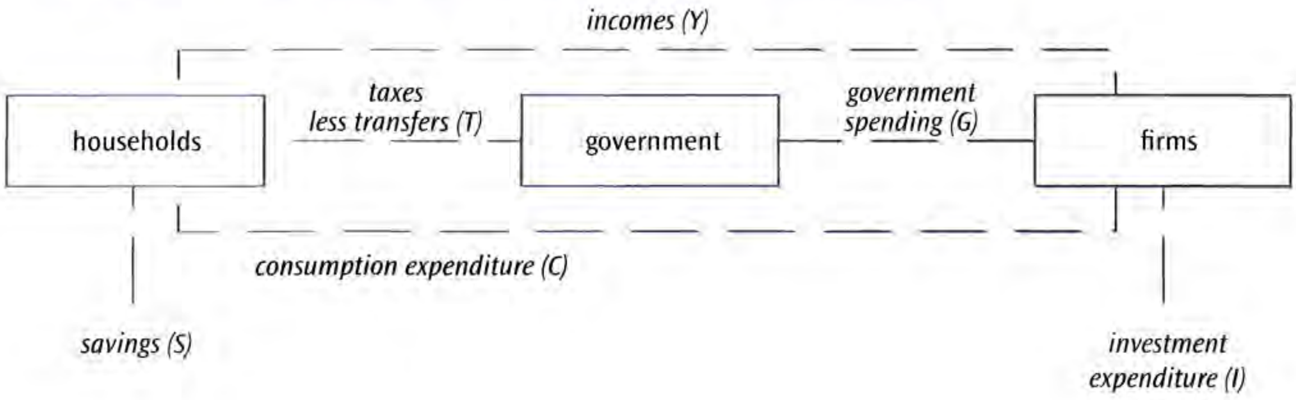
The circular flow of income is the simplest way of modelling an economy. The complex computer-based models used to create budget scenarios are almost invariably more complex versions of a vision of the macroeconomy as a circular flow of income which is represented in Diagram 1. In this vision of the economy, production and investment is carried out by market-oriented firms. This generates cash income for the households which own, or work in, firms. Households then either save their income, or consume it by spending it on goods produced by firms. Households are assured to act as if they were completely unified, pooling their incomes and making savings and consumption decisions so as to maximise the total benefit to the household as a whole.

The role of government is to levy taxes, make transfer payments, and provide public services. The model simplifies this role by assuming taxes are paid by households and transfer payments such as pensions, child benefits, unemployment benefits are made to households, while public services are provided by government, using goods and services produced by firms. The economy operates so as to equate savings and investment, but not necessarily at full employment of those who want paid work, and full utilisation of the capital stock produced by previous investment. The extent to which economies automatically tend to full employment is a matter of considerable debate among economists. But all are agreed that episodes of unemployment can last a long time.

In this vision, households do not produce. Their only function is to save or spend. They are only consumers. Nor does government spending create growth for the future. Its main role is to redistribute income and to increase aggregate demand (if G is greater than T: a budget deficit) or reduce aggregate demand (if T is greater than G: a budget surplus). The stock of natural resources, the stock of labour, and the social framework of civic responsibility is taken for granted and no work is required to maintain these resources.

Of course, in many cases, especially in the agricultural sector, the household and the firm are fused together in a family business. But conceptually, the model distinguishes the family aspect from the business aspect.

Diagram 1 **The circular flow of national income: a gender-blind model**



Imports and exports can be introduced into the model, in a similar way to savings and exports. Imports, like savings, are treated as a leakage from the economy, a withdrawal of funds, while exports, like investment, are treated as an injection of funds into the economy. For simplicity, net import expenditure is attributed to households; while export demand is met by firms. The economy is in equilibrium provided that the value of savings plus imports is equal to the value of investment plus exports. But equilibrium does not guarantee that full employment, absence of poverty, and adequate human development will always be achieved.

Gender and the Circular Flow of Income

Gender can be introduced into such a model by disaggregation. The most obvious disaggregation is to distinguish male and female-headed households and male and female- headed firms. The financial flows into and out of these gender-differentiated units could then in principle, be distinguished. It would be possible to answer questions such as:

- What proportion of government spending is directed to female-headed firms and what proportion to male-headed firms?
- Do male-headed firms display different investment and export behaviour from female-headed firms?
- Do male-headed firms display different income generating behaviour from female-headed firms?
- If public procurement policy were changed so as to offer more opportunities to female-headed firms, what would be the implications for investment, exports and income flows?
- What proportion of national income accrues to female-headed, and what to male- headed households? Are the shares in income the same as the shares in population? Do female-headed households get disproportionately less income?
- Does the savings and expenditure behaviour of male and female-headed households differ? For instance, do female-headed households have a greater tendency (given the same level of income) to spend in ways that directly benefit children; or to save a larger proportion of their income; or to consume imports?
- Does the incidence of taxes and transfer payments differ as between male and female- headed households?
- Would human resource development be improved by a redistribution of income to female-headed households?

A gender disaggregated *Social Accounting Matrix* could in principle be constructed to conduct this kind of analysis. This would require the allocation of resources to reanalyse existing household surveys and surveys of business (such as the census of production).

However, this kind of disaggregation has limitations. It does not look within households and firms so as to analyse gendered patterns of decision-making within them. There is abundant evidence that neither households nor firms are units in which all share common goals and pool all their resources. Moreover, within male-headed households and firms there can be widely differing degrees of women's empowerment.

Within male-headed households, there is a strong tendency for income streams and consumption and savings patterns to be gender differentiated. A great deal of case study evidence suggests, for instance, that in a wide variety of settings, extra income going to the mother in a two parent household is more likely to be spent in ways that directly benefit children than extra income going to the father.[3] More generally, the nature of the decision-making role of women is likely to be a critical factor in the pattern of household expenditure and savings.

Within male-headed firms, there is a strong tendency for men's pattern of working life to be taken as the norm; and for the organisation of production and income in ways that best suit men, even if there is thereby some loss in productivity.[4] Here again, the nature of the decision-making role of women within male-headed firms is likely to be important in the pattern of income generation (for example, pressure for investment in the skills of all the workforce not just men; pressure for investment in technology that enables women as well as men to have safer, less stressful, more productive working lives).

To incorporate this dimension of gender into the model of the circular flow of income, it would be necessary to disaggregate male-headed households and firms according to women's degree of decision-making power within them, i.e. according to the criteria of women's empowerment. We could then ask the same set of questions as before, but in terms of male-headed households and firms with high and low degrees of women's empowerment. However, there are many more practical difficulties in constructing a social accounting matrix disaggregated according to the degree of women's empowerment. There are more difficulties in defining and measuring degrees of women's empowerment within male-headed organisations, than there are in determining whether an organisation is male-headed or not (even though the latter is not always straightforward). Conventional household and firm surveys do not collect data in ways that focus on empowerment questions; and

Box 3 **Women's Voices in Budgetary Policy**

The Women's Budget Initiative in South Africa produced the following assessment for their country:

South Africa is in many ways outstanding in terms of the representation of women in public life – it stands seventh in the world in terms of the proportion of women in the national Parliament. There are three women Cabinet ministers out of a total of 27 and two deputy ministers. A quarter of the members of the national Parliament are women. However, there is still a relative absence of women in positions of power to influence decision-making in public expenditure and taxation.

Within the central government, the key institutions are the Department of Finance, the Department of State Expenditure, and the National Budget Committee. The crucial position in these institutions are the Director General, the Deputy Director General and the Chief Directors. In the Department of Finance, there is one woman at this level; in the Department of State Expenditure there are none. The National Budget Committee in 1995/96 had about twenty permanent members, of which four were women (two of them Members of Parliament). In the national Parliament, the chairperson of the Joint Select Committee on Finance is a woman, but women account for less than a quarter of the members of the committee.

At the provincial level, there are no female premiers, 14 women members of Executive councils out of a total of 90 (16%), and 83 women members of provincial legislatures out of a total of 334 (25%). Overall women account for just over a quarter of the members of provincial Finance Committees.

As Debbie Budlender, Project Editor for the Women's Budget Initiative points out:

> *"Admittedly, not all women are sensitive to gender issues. The presence of more women in powerful positions will not necessarily guarantee a more women-friendly budget. However, there is a greater likelihood that with more women, more of the issues will be raised".*

quantitative surveys have considerable limitations as instruments for investigating decision-making. Consideration needs to be given to testing a variety of possible proxy variables.

The principle of disaggregation could also be applied to the government, distinguishing male and female-headed committees, departments and services; and distinguishing male-headed committees, departments and services according to the degree of women's empowerment within them.

A more detailed examination of budgetary decision-making processes, distinguishing different levels of government, would make it possible to answer questions such as: Is a greater voice for women in budgetary policy associated with different patterns of taxation, transfer payments and government spending? Do these differences have implications for macroeconomic and human development outcomes?

Limitations of Gender-Disaggregated Models of the Circular Flow of National Income

No matter how much this model is modified by gender disaggregation and consideration of women's empowerment, one major flaw remains. It ignores the domestic (or "reproductive") work and voluntary community work, which together constitute an unpaid "care" economy. This unpaid care economy is vital in developing and maintaining the health and skills of the labour force; and in developing and maintaining the social framework: the sense of community; of civic responsibility; the rules, norms and values that maintain trust, goodwill and social order.

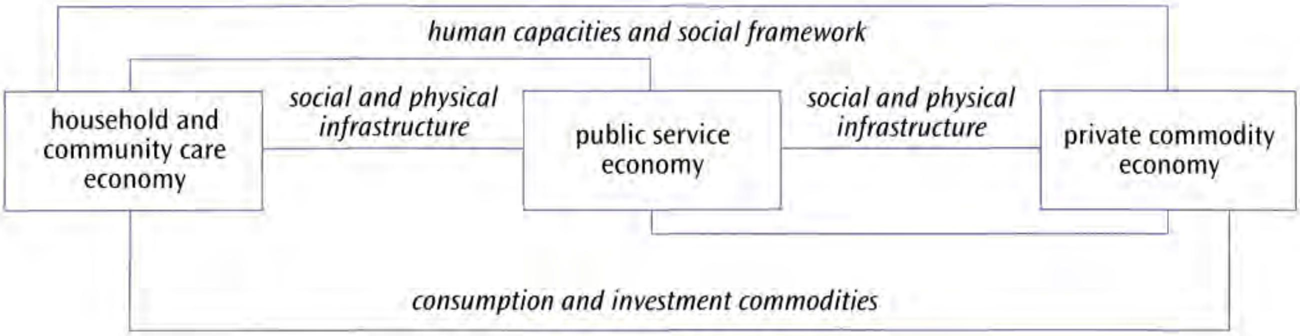
These activities tend to be taken for granted and are not brought into the discussion of economic policy. They are often thought of as "social roles" rather than economic activities. But they *are* economic in the sense that they require the use of scarce resources; and in the sense that they provide vital inputs to the public and private sectors of the economy. These activities are also gendered, in the sense that they are almost invariably regarded as the special responsibility of women; and as women have begun to focus on a macroeconomic policy, it is the *absence* of the care economy in macroeconomic thinking they have noted.[5]

We can incorporate the care economy into macroeconomic thinking by focusing on the circular flow of national output seeing national *output* as a product of the interaction of three sectors: the private sector commodity economy; the public service economy; and the household and community care economy. The creation of wealth in a country depends on the output of all three sectors. Sometimes there is a tendency to assume that the wealth-creating sector is the private commodity economy; while the public service economy and the household and community care economy spend what the private commodity economy has produced. This mistaken view results from considering the circular flow of national income (Diagram 1) in isolation from the circular flow of national output (Diagram 2). The three sectors of the economy are *inter*dependent. The private commodity economy would be unable to create wealth for use by the government and by families and communities, if the government and families and communities did not in turn create wealth for use by the private sector. The wealth of a country consists not only of the commodities produced by the private sector, but also the public services produced by the government (law and order, communication networks, health and education) and by the care economy (human capacities, social cohesion). This interdependence is shown in Diagram 2.

The private sector *commodity economy* produces market-oriented goods and services primarily in response to the profit motive. It includes the private formal sector and the informal sector. In principle, these sectors should be fully covered in the national accounts. In practice, there is under counting of informal sector activities. Men and women both work in the commodity economy. Overall, the formal part of it is relatively male-intensive though less so than formerly and the informal part relatively female-intensive. The *public service economy* produces a social and physical infrastructure which is used for consumption and investment in the *commodity economy* and the *care* *economy*. These services correspond to public sector output in the national accounts. The public service economy is market-oriented to the extent that its employees are paid wages, and it is financed through taxation, user charges and borrowing (and, sometimes, by increases in the money supply). But it is less market-oriented than the commodity economy because it delivers many services free at the point of consumption. Ideally, it should be citizen-oriented, but unfortunately it is often bureaucrat-oriented. Men and women both work for wages in this sector. Overall, it is less male-intensive than the formal commodity economy, though probably more male-intensive than the informal commodity economy.

The *care economy* produces family and community-oriented goods and services as part of the process of caring for people. Work in the care economy is not paid, though it may be supported by transfer payments from the government (such as pensions and child benefit). It is regulated by social norms rather than by commercial or bureaucratic criteria. This economy is excluded, as a matter of princi-

Diagram 2 **The circular flow of national output: a gender aware model**



ple, from the UN System of National Accounts. Both men and women work in the care economy, but overall it is relatively intensive in the use of female labour. The *care economy* contributes to the welfare of the individuals receiving care, but it also contributes to the activities of the commodity economy and the public service economy by supplying human resources and by maintaining the social framework (supplying what some economists call human capital and social capital to the commodity economy and public service economy). The relative size of the three sectors can vary depending on the level of development and economic strategy pursued.

Like all pictures which draw boundaries, this picture is something of an oversimplification, since the commodity economy is not totally guided by commercial principles; and the public service economy does not always serve the public; nor is the care economy totally guided by selfless altruism. Nevertheless, there is an important difference between being paid to look after children as a private sector nanny or child minder, or as a public sector nursery school assistant, and looking after one's own children[6]. This is not only a personal difference. The costs of childcare in the commodity economy and the public service economy show up in the national accounts, and are taken into consideration in policy decisions. But the costs of childcare in the care economy do not show up in the national accounts and are therefore not taken into account in policy decisions. As a result, there is no clearly visible answer to the question "Who pays for the kids?" raised by American economist, Nancy Folbre.

One way of providing an answer that makes sense to economists is through the extension of *input – output analysis* to include the inputs used by and outputs provided by the family and community care economy. This analysis is in progress for Australia[7].

As we have pointed out, conventional macroeconomic models (which are based on Diagram 1) ignore the care economy as a producer of human capabilities and upholder of the social framework. They do include a household sector in the framework, but only as a source of personal consumption and personal savings. The only constraint which the household sector can impose on such models is the constraint of insufficient demand to buy the output of the market-oriented economy. In effect by ignoring the care economy, macroeconomists treat it as if it is able to supply whatever quantities of human capacities and social support are required by the commodity economy and the public service economy, regardless of the level of investment in the care economy. If it *can* do this, then it is safe to ignore it from the point of view of macroeconomic policy, and macroeconomists are right to do so. The assumption is equivalent to an assumption that women's time is available in unlimited quantities, in more technical terms, that the supply of women's labour is perfectly elastic.[8] In effect, conventional macroeconomic theory treats the care economy in the same way the Lewis model of development treats the "traditional" sector as a sector that can supply whatever is required without the need for investment. In the Lewis model,[9] the ultimate vision is of the "modern" sector completely taking over from the "traditional" sector. But that is neither desirable nor possible in the case of the care economy, since by their very nature human capacities and the social framework cannot be, and should not be produced, entirely along commercial or bureaucratic lines.

There will always be, and should always be, an important role for the care economy. The question is rather whether there will be sufficient resources in the care economy to enable it to respond to the demands made on it. If the care economy is overburdened, there will be negative feedback to the commodity and public service economies which will reduce their productivity and increase their costs, because of inadequate maintenance of human resources and of the social framework. The tangible signs of this will be work days lost and lower productivity through ill health and stress; rising public and private expenditure on insurance, policing, social workers, repairs to make good damage to public and private property, and health services to make good damage to human capacities. This negative feedback will affect the level and growth of output of the public and private sectors. Beyond a certain point, investment in the care economy will be necessary to increase its capacity – it cannot be treated as a bottomless well from which water can always be drawn. This investment can come both through the provision of public sector services and through the provision of decent jobs in the private commodity economy.

Much of the investment required by the care economy is best supplied through public services free at the point of delivery since it consists of social and physical infrastructure (health and education services, water, sanitation, lighting , roads, electricity etc) which need to be accessed by women who do not have much purchasing power. Historically, the improvement of productivity in the care economy has gone hand in hand with the provision of such public services.[10] But the public service economy is financed by taxes on the formal sector commodity economy which overall is male-intensive; whereas the public services most important to the well-functioning of the care economy tend to be used more widely by women. This creates the conditions for a potential mismatch between the level of public investment required to improve the productivity of the care economy, and the level of tax revenue forthcoming to finance this. It creates the conditions which may generate budgetary strategies which rely on expenditure cuts, which simply transfer costs from the public sector service economy where they do show up in the national accounts, to the care economy where they do *not* show up in the national accounts, but are visible to those who think to look, in a deterioration in the health and capacities of families and communities. Ultimately these policies will be self-defeating if they are pushed too far – the social framework will give way, or other categories of public expenditure (on police and prisons for instance) will rise, undermining the budget strategy.

Budget Strategy and Human Development

A useful guide to empirical findings on the relationship between budget deficits/surpluses, growth and poverty is provided by two recent papers for the ILO.[11] Connections can be made between the framework of analysis they use and the gender aware framework developed in the previous section. Let us first consider their findings.

i Sound macroeconomic policies do have a positive impact on the rate of growth

However, it is not easy to deduce from the evidence any general prescription about the appropriate size of budget deficit/surplus. The main reason for this is that not only does the budget affect the rate of growth, but also the rate of growth affects the budget. Public expenditure and public revenue are not wholly within the control of even the best organised government (i.e. they are not wholly exogenous to the growth process). The rate of growth affects the amount of revenue any particular tax structure will generate; and the amount of expenditure that any particular structure of social security benefits will generate. If growth falters, revenues will tend to fall and expenditures rise, thus tending to increase the budget deficit, irrespective of fiscal policy. There is thus a problem of two-way causation, which makes drawing policy conclusions difficult. Much depends on the specific circumstances of particular countries. Budget deficits can have negative impacts on savings and investment ("crowding out" in the jargon of economics), and thus reduce growth. But this is not always the case. Taxes can be designed in ways that support savings and investments, and a deficit in the public sector can counter-balance a surplus in the private sector which could otherwise lead to a deficiency in aggregate demand and an under-utilisation of the economy's productive potential. In this way, budget deficits may sometimes encourage private sector savings and investment ("crowding in" in the jargon of economics).

ii Fiscal contraction (reduction of budget deficits) can have a negative impact on economic growth and poverty

This negative impact comes via a reduction in spending on public sector investments in infrastructure and human resources, which in turn has a negative impact on private sector investments, which is discouraged because of lack of complementary factors of production and also via a negative impact on demand in the market which discourages more long term investment, and leads to unemployment. In the jargon of economics, in many circumstances public sector investment does not discourage (or "crowd-out") private sector investment. Rather, public sector investment encourages (or "crowds-in") private sector investment, both through the supply side and through demand side effects.

iii Public sector services can have positive growth externalities

The "new growth theory" (sometimes called "endogenous growth theory") shows how expenditure on certain kinds of public sector services can have an even more powerful positive impact on the rate of growth by creating external effects which raise the productivity of private sector investments and counteract any tendency for increased private sector investment to result in declining marginal productivity of capital. One example is public expenditure on education and training. This not only raises the productivity of an individual who receives the education, but also the productivity of all the people with whom that individual interacts. (For instance, if I am computer-literate, it enables other people to save time and effort by communicating with me via computers. This effect is external to me, and I cannot capture all the economic returns to investment in my computer literacy. This will tend to lead me to under-invest in my computer literacy if I have to finance the necessary training myself. Public provision of the training will overcome this problem and through positive externalities tend to raise the rate of growth. This implies that public expenditure on education should be treated as investment, rather than consumption).

iv National budgets can simultaneously promote both high and sustainable rates of growth and a more equal distribution of income and better human development

The key to doing this, is to design budget policy so as to maintain sufficient effective demand to create a buoyant labour market, while at the same time re-directing the pattern of public expenditure towards investment in human resources, appropriate physical infrastructure and environmental protection.[12] This means it is important to consider not just the size of the deficit, but also the combination of expenditure and revenue which produces it. If the main emphasis in improving the management of the budget is placed on cutting back expenditure while paying little attention to the need to raise more revenue, then it is likely to be more difficult to combine growth and human development. As Pyatt[12] argues

> *"it is probably the wrong emphasis in most countries for two reasons. One is that the need, and even the desirability, of cutting back on some categories of expenditure must be set against the need to increase expenditure under some other heads. There is therefore a case for a shift in the pattern of expenditure which does not imply a reduction in the aggregate given the option to raise more revenue. The other is that there is a tendency in practice for expenditure cuts to fall on the poor, while increases in taxes fall more on the rich".(p40)*

Pyatt concludes that budgetary policy should reflect a concern for efficiency in the use of resources and a concern to mobilise new resources while reorganising the pattern of expenditures.

This is an excellent point of departure, but a gender-analysis needs introducing into the design of policy so as to ensure that:

i efficiency in the use of resources is properly defined. All too often efficiency is defined only in relation to the use of paid labour in the private and public sectors of the economy. Caring labour in families and communities is left out because it does not have a market price. Measures which seem to increase efficiency in the use of paid labour can in fact simply be transferring costs to the unpaid care economy. The overall effect can be a reduction in efficiency, resulting from human resource depletion and deterioration of the social framework;

ii mobilisation of new resources takes account of the fact that women's labour is not an under-utilised resource, but an over-utilised resource, in limited supply; and that households are internally differentiated and tend *not* to pool *all* their resources. This means that the impact of different taxes will vary by gender – income tax will have more immediate impact on men, while VAT on basic household consumer goods will have more immediate impact on women. The ultimate incidence will depend on intra-household relations;

iii reorganisation of the pattern of expenditures takes account of the fact that some externalities are gender-specific. Given the existing division of labour, women's work in the care economy produces services with benefits far beyond families, raising productivity in the private commodity economy and the public service economy. There is a particular need to enable women to increase their productivity in the care economy, but there are no market prices signalling the returns to such investment;

iv the issue of sustainability is understood very broadly, going beyond financial sustainability to encompass the sustainability of the social framework, and of the economy of care that is so important in maintaining it.

Gender and Budget Strategy

A key issue of aggregate budgetary policy is the extent to which a budget deficit is sustainable. This is conventionally judged in terms of whether it will tend to lead to financial problems, such as accelerating inflation; balance of payments crises; an increasing and unsustainable debt burden. Inflation and balance of payments problems are likely if the public and private sectors are already fully utilising their capacity; labour is fully employed; and the government keeps increasing the money supply to finance a growing deficit. If instead the deficit is financed by borrowing, this will be less inflationary, but may tend to drive up interest rates especially if financial markets have been deregulated. This in turn means that more and more future tax revenue will be pre-empted to service the debt. It may also deter private investment, "crowding out" private investors because they cannot afford the high interest rates. The sustainability of a budget surplus is not conventionally judged to be a problem because a surplus does not tend to lead to financial problems. But it may lead to unemployment, low levels of capacity utilisation, and an overburdening of the care economy, with consequent social and economic problems, and a breakdown in social cohesion.

The likely sustainability of a budget deficit can be tested by using a computable macroeconomic model to simulate the likely outcomes with a range of different values for variables. But the answers will depend on the assumptions built into the model on such issues as the extent to which increases in money supply lead to inflation; or increases in borrowing drive up interest rates; or increases in interest rates deter private sector investment. Negative feedback from overburdening the care economy is not built into such models.

The sustainability of a budget deficit in practice is also influenced by more intangible factors such as the climate of opinion and the institutional structures of a country; what Taylor (1988) calls the social matrix, and Khan (1993) calls the interface between institutional organisation and policy regime. That is, the sustainability depends on the configuration of power and values as well as on the size of the deficit itself. The extent to which any given deficit leads to financial problems is influenced by factors such as the organisation of financial markets and "market sentiment" and the organisation of wage negotiations and the degree of importance attached to the "social wage" provided by public sector services. It is influenced by whether there are co-operative or competitive responses to budgetary policy, and the kind of "social bargaining" that takes place about policy. There are important feedback effects from the expectations and actions of major players in the economy. For instance, the sustainability of a deficit in a country with deregulated financial markets depends a great deal on the "confidence" which dealers in those markets have in the sustainability of the deficit. If they decide it is not sustainable then they will tend to take action – such as moving their funds overseas – which make their fears self-fulfilling.[13] In a deregulated economy a great deal depends upon expectations in the financial markets about how an economy works, what kinds of things will lead to a financial crisis and what can be assumed to be constant, no matter how budgetary policy operates.

One of the factors that is usually assumed to be constant is the social framework of norms, rules and values (what some economists call the "social capital"). For instance to work well an economy needs there to be a fund of goodwill, trust, and acceptance of and obedience to the law; in addition to some institutions that provide social stability and security, even though the economy is changing; institutions that can cushion individuals against shocks and see them through times of transition and restructuring.

Family and community institutions in the care economy are important pillars of the social framework, generating and maintaining it. However, the social framework may not be invariant to the macroeconomic policy – high and rising deficits that generate hyperinflation may tend to lead the social framework to crumble; but so also will severely deflationary policies in which the deficit is cut rapidly and extensively, creating widespread unemployment and idle capacity. Some economists are now beginning to pay attention to the interrelation between macroeconomic policies and the social framework (which they tend to call "social capital") and to ask whether in some circumstances, too rapid a deflation, as well as too rapid an inflation, runs down to dangerous levels the fund of goodwill and acceptance of social norms that is needed for economies to function well. They do not however connect the maintenance of the social framework to women's unpaid work in the care economy as we have done here.

Nevertheless economists who are worried about the depreciation of social capital do see the need to consider the sustainability of the budget deficit/surplus in a wider framework, not just emphasising its implications for financial variables such as the rate of inflation and the balance of payments, but also for growth and human development. There is an urgent need to develop operational maroeconomic models that take account of this feedback. The work of Palmer, Elson and Walters[14] can be drawn on as a point of departure.

Changing Budget Priorities

To move from gender-sensitive models to gender-sensitive practices means changes in budget priorities. As Pregs Govender (Member of the South African Parliament) writes in her introduction to the Women's Budget, "The budget reflects the values of a country – who it values, whose work it values and who it rewards... and who and what and whose work it doesn't".[15] To bring about changes in priorities, the development of new tools to appraise budgets and the building of broad-based coalitions to support the use of these tools to bring about change, are discussed in detail in the companion to this paper.[16]

Yet the first stage in changing priorities is to change understanding. Here we have looked at national budgets through women's eyes, disclosing interconnections which are missed from gender-blind visions. Including women's empowerment and the economy of care within macroeconomic policy frameworks can contribute to the sustainability and development in ways that in the long run can benefit us all.

Notes

1 Elson, 1996.

2 See, for instance; Waring, 1989; Cagatay, Elson and Grown (ed), 1995; Special Issue of *Feminist Economics*, November 1996.

3 Dwyer and Bruce (ed), 1988.

4 Tibaijuka, 1994, Bruegel and Perrons, 1995.

5 Sen,1995.

6 For further discussion, see Himmelweit, 1995; Folbre, 1995; McCloskey, 1996.

7 Ironmonger,1995.

8 Elson, 1995a.

9 Lewis, 1954.

10 Folbre, 1994.

11 Van der Hoeven, (1995) and Pyatt (1993).

12 suggests Pyatt (1993).

12 ibid.

13 Campos and Pradhan, 1996, Appendix 1.

14 Palmer, 1995; Elson, 1995b and Walters1995.

15 Budlender (ed.), 1996:7.

16 Elson, 1996.