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“Rebooting” Is Not An Option: Toward Equitable Social and Economic Development

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October 20, 2009

“Rebooting”¹ Is Not An Option: Toward Equitable Social and Economic Development

“We have huge unmet needs in climate change, in poverty in an economic system in which there is huge economic capacity and huge unmet needs. If you can't solve those problems, that economic system is not functioning the way it should be.”

Joseph Stiglitz at the historically black Monumental Baptist Church in Pittsburgh, Pennsylvania in advance of the G-20 meetings, September 24, 2009.

I. Introduction

Many feminist economists argue that a fundamental aim of economic policymaking should be to ensure the conditions that enable adults to provide for themselves and their families under dignified work conditions. Central to that goal are work opportunities that generate an adequate level of family income and economic stability. The latter is especially important; economic uncertainty and volatility are anathema to the goal of provisioning, not only because these conditions make it difficult for families to provide, save for retirement, and fund children's education, but also because of their contribution to psychological distress that undermines family well-being.

Wide gaps in income and well-being, that is, economic inequality, between individuals, households, and social groups conflict with the goal of broadly shared economic prosperity. Gender inequality, for example, is linked to unequal bargaining power for women in the household and in the paid jobs they hold. This has negative effects on women's agency and children's well-being. Legal inequalities in land ownership rights and access to productive inputs can harm agricultural productivity, as the evidence from Sub-Saharan Africa shows (Blacken *et al* 1999). Thus gender inequality radiates, producing harmful effects economy-wide.

Racial/ethnic inequality contributes to social and economic exclusion. Apart from the negative effects of that exclusion on the well-being of subordinate ethnic groups, it contributes to a lack of political voice, and equally as important, racialized state policies that frequently favor the dominant ethnic group. Accentuated household and individual inequality have similar effects; the dominant economic group (class) is able to wield disproportionate political power, often resulting in government economic policies that further reinforce the existing unequal distribution of income and wealth. The resulting intergenerational effects of inequality are well-documented. Where the state fails to act to ensure equalizing distributive policies that provide for children's health and education, children in poor households face circumscribed life chances and income-generating possibilities.

In contrast, a central feature of equitable societies would be that intergroup inequalities are first attenuated and then eliminated over time. Further, economic mobility for children in low-income households would be maximized through state-level policies to ensure adequate social and economic investments. And importantly, the care burden women shoulder at the expense of achieving material equality with men would be alleviated with the help of state-level policies that support men's care role, complemented by public expenditures on child, elder, and sick care.

These basic guidelines offer an evaluative framework for national and international macroeconomic policies. Macroeconomic policies shape the possibilities for provisioning. They influence the size of the economic pie and the distribution of the pie itself, across racial, ethnic, and gender groups as well as between countries. The right macro-level policies enable rising living standards; the wrong policies can pitifully restrict families' array of options to provide for their well-being, and may result in a much heavier care burden for women, at a heavy cost to their own economic agency and life choices.

This paper explores the salient well-being outcomes of the set of macroeconomic policies set in motion since the early 1970s known now as neoliberalism. To anticipate the results of this analysis, a consideration of trends in well-being makes it clear "rebooting" the global economy—continuation of the same set of neoliberal policies with only minor adjustments—is not a fruitful option. Rather, it is evident that the policies that have undermined the goals of dignified work, security, and intergroup equality contributed to the crisis and must be replaced.

In the penultimate section of this paper, I offer some illustrative examples of policies for reform of the financial sector that support goals of an alternative vision. I emphasize the financial sector because of the implications of policy reforms here for broadly shared well-being and equality. I hope that attention to that sector will elicit the interest of feminist economists to develop even more detailed proposals for reform. Armed with comprehensive analyses and policy proposals from a well-being perspective, feminist economists will be situated to assume a seat at national and international decision-making tables so as to have a voice in charting our global economic future.

II. The Roots of Today's Inequality and Global Economic Stagnation

The period 1945 to 1973 is sometimes fondly referred to as the *Golden Age of Capitalism* – golden because in many countries, wages rose lockstep with living standards and the rate of economic growth. This era of low unemployment combined with mild business cycles to provide relatively stable income. Undergirding the economic prosperity of this period was a social safety and social insurance programs, erected in response to the economic havoc induced by the Great Depression. Governments were on the whole willing to regulate markets—especially the financial sector—so as to provide the conditions for society-wide stability and job growth. As a result, more families were able to enjoy stable incomes and relative economic security. Indeed, it appeared that

policies that permitted a redistribution of income to low-income households also stimulated economic growth, at least in industrialized countries. This win-win relationship can be labeled “equity -led growth” – whereby the effect of a more equitable distribution of income stimulates economic growth, employment and livelihood expansion, as a result, government revenues to fund social and physical infrastructure expenditures that further equalize well-being.

This was also a period of foment in newly independent countries, and here, too, there is evidence of relatively rapid economic growth – that is, a growing economic pie, and improvements in the quality of life, in part due to public expenditures on social and physical infrastructure that improved health and education.

Although government had taken measures to promote economic security in recent decades, and to calm the volatility of otherwise erratic markets, its role was under attack by the time of the OPEC oil crisis. A shift in macroeconomic policy that emphasized deregulation of markets began to emerge about that time. The new macroeconomic regime *neoliberalism* has had as a central goal reduction of the role and reach of government, arguing an unregulated private sector is more efficient than a regulated economy and government intervention. Central tenets of neoliberal policies have included:²

- *Trade liberalization*: Elimination of tariffs on imports and other forms of trade protection;
- *Investment liberalization*: Reduction of restrictions on foreign direct investment;
- *Financial liberalization*: Elimination of restrictions on cross-border movements of money.
- *Exchange rate liberalization*: The shift from fixed to flexible (market-determined) exchange rates;
- *Fiscal discipline*: Restrictions on government deficit spending, even in times of economic crisis;

While the above list might suggest a return to Adam Smith and the full embrace of the “invisible hand”—that is, free and unregulated markets—such has not been the case.

The growth of inequality enabled economic elites to use their political strength to further increase their wealth. Their wealth helped them to secure political influence, resulting in governments directing economic rents (unearned profits) to economic elites. Two key pieces evidence exemplify the influence of economic power on the state to enact on the behalf of elites. Perhaps one of the most obvious, in the US at least, is the impact on tax rates of the highest income groups. The tax cuts enacted under George W. Bush in 2001 and 2003 have disproportionately benefited high-income households. One analysis indicates for example that if the tax cuts are extended until 2018, the top 20% wealthiest households would receive 74 percent of the tax cuts’ benefits, while the poorest 40% will receive less than 5% of the benefits (Aron-Devine 2008).

A second example is the expanded economic power conferred to corporations as a result of the signing of the Trade Related Agreement on Intellectual Property Rights (TRIPS) in 1994. Prior to the signing of the TRIPs agreement, pharmaceutical companies in a number of countries held patents on medications such as HIV / AIDs anti-retrovirals for a period of 10 years. Patent control essentially confers monopoly rights on the sale of a product, thus driving up the price that can be charged and corporate profits. The TRIPs extended patent rights to 20 years for a variety of products, including essential medicines. Though presumably intended to encourage research, the TRIPs agreement legislates greater monopoly power in contrast to the neoliberal argument that that liberalization is needed to promote competition and efficiency. The growing power of economic elites is reflected in the lobbying power of multinational corporations. Their greater ability to extract profits has come at the expense of the poor in developing countries. Access to essential life-saving drugs has become increasingly expensive, restricting access of the poor and uninsured (Kawachi and Wamala 2007).

III. Trends in global inequality and well-being

Neoliberal proponents have argued that market liberalization and a reduced role for the state will produce more rapid rates of growth through the efficient allocation of resources. Higher per capita incomes, it is asserted, will provide the means for improved living standards and increased revenues for governments to spend on social investment.

Neoliberal “regime change” has, however, failed to yield the predicted improvements in well-being within and across groups. Instead, the new macroeconomics agenda ushered in the *Leaden Age*—a period of widespread slowdown in economic growth (an exception being a number of Asian economies which refused to adopt wholesale the full array of neoliberal policies), downward pressure on wages, and a dramatic increase in inequality.

As the data in Table 1 indicate, globally, rates of economic growth in the neoliberal period are almost half those attained in the previous 20 years.³ In Heavily Indebted Poor Countries (HIPC), average annual growth rates since 1980 have turned negative, as they have also in Sub-Saharan Africa.

Moreover, the trend has been unambiguously toward worsening income inequality since the 1970s (Milanovic 2002, 2007; International Labor Organization 2008). This movement is in evidence both within countries and between countries. A few statistics highlight the extent of the growing income gap. One measure of global inequality is the ratio of incomes of the richest 20% of households compared to the poorest 20%. That ratio in 1960 was 30:1 (Table 2). In just 45 years, it rose to 103:1. Figure 1 suggests that the growth of inequality accelerated in the late 1980s, coinciding with the expanded adoption of neoliberal policies across the globe.

Tables 1 and 2 and Figure 1 about here.

Rich countries have not escaped these trends. In the US, for example, the median family income at an annual rate of less than 1 percent a year between 1980 and 2007, only one third as much as median incomes had risen in the previous 27 years. In contrast, the incomes of the top 0.01 percent of American families increased sevenfold during that same period (Krugman 2009).

Chief Executive Officer (CEO) pay in the US shows a similar trend (Figure 2). While wages of workers have stagnated, CEO pay has risen dramatically over the last three decades. The ratio of CEO pay to average worker pay has risen from 42:1 in 1980 to 500:1 in 2008 (Anderson, Benjamin, Cavanagh, and Collins 2006; ILO 2008).

GDP and other income measures are sometimes criticized on the grounds that income is a means to an end, and to better understand trends in well-being, we should measure the ends themselves. Three measures of well-being are helpful in painting a portrait of global progress: 1) life expectancy, 2) infant mortality rates, and 3) the ratio of females to males in the population.⁴ Trends in life expectancy and infant mortality rates tell us something about the level of public investments in social infrastructure (health, education, care services, and so forth); subsidiary (positive or negative) effects of economic growth on health; and more generally, the distribution of political power and thus resources.

The ratio of females to males in the population is a good proxy indicator of trends in the degree of gender equality. It reflects society's valuation of females. The ratio can fall below biologically-expected ratios (roughly 102.5 females per 100 males in developing countries and 105 to 100 in industrialized countries) as a result of differential investments in girls' and boys' nutrition and health, women's bargaining power within the household, and sex-selective abortions that favor one gender over the other.

The data in Figure 2 compare the average annual rates of increase in life expectancy in two periods: 1960-80 and 1980-2006. The latter period coincides with the widespread global adoption of neoliberal macro-level policies. For all country income groups and the world, improvement slowed in the neoliberal period, in some cases, dramatically so. In middle-income countries, for example, while the average annual rate of increase in life expectancy in years was 2 percent in the 1960-1980 period, it fell to less than half of one percent per year in the neoliberal period. We might expect that rates of improvement will slow for industrialized countries with already elevated life expectancy, due to biological limits. But we would anticipate continued progress in lower income countries. As the data in Figure 2 show, however, the rate of improvement slowed significantly in lower income groups, while relatively stable between the two periods in high income countries.

The infant mortality rate data in Figure 3 tell a similar story: rates of reduction in infant mortality have slowed in most regions, even in high-income countries. Only low-income countries have managed to continue to lower infant mortality rates in the 1980-2006 period at a similar pace to the earlier period.

Figures 2 and 3 about here.

Progress towards gender equality also appears to have suffered during the neoliberal period, when measured as the share of females to males in the population. Figure 4 shows the percent change of females to males in the population for countries at varying income levels and across geographic regions, as well as for three rapidly growing Asian economies – China, India, and South Korea. This story – in some ways, an astounding one, given the rise in the ratio of female to male educational attainment and employment during this period – indicates that the number of women as a ratio to men has fallen in most regions of the world and countries at various income levels. The only exceptions to this negative trend are Latin America and the Caribbean and South Asia. In Europe and Central Europe, the decline has been especially precipitous.

The overall sex ratio is determined by sex ratios at birth and mortality rates by gender and age; given this, caution should be used in making cross-country or regional comparisons. Comparisons of trends over time, however, can be useful. The causes of declines in sex ratios from 1960-80 to 1981-2006 are varied and include: different rates of out-migration, sex selective abortion, differential access to health care and nutrition, HIV/AIDs and suicide rate differentials, among other causes. Given the way the ratio is calculated, it could also fall if male improvements in life expectancy exceed women's; this occurred only in Sub-Saharan Africa. Anderson and Ray (2009) found that a large number of missing women in India die as adults, while the majority of missing women in China are due to pre-natal deaths. (See Table A1 in the appendix for the female to male ratios in both periods by country income level and region).

Figure 4 about here.

IV. Financial Liberalization: A Undermining Force for Gender Equality and Well-Being

I turn now to a more microscopic focus on the impact of financial liberalization. Because of its central role in the expansion of inequality and concomitant deterioration of progress towards improving well-being, this aspect of neoliberalism merits more attention in its contribution to the retarded achievement of broadly shared well-being.

Many years ago, economist John Maynard Keynes warned of the economic crises and instability created by financial liberalization, underscoring the tendency toward irrationality in decision-making and perverse incentives that contribute to manipulation by insiders. The 1929 stock market crash and Great Depression were painful examples of these tendencies. Governments implemented a series of financial regulations in the wake of that catastrophe, including capital controls and the adoption of fixed exchange rates. The regulations were intended to maintain the health of the financial sector and to prevent excessive risk-taking on the part of financial institutions. They also enabled countries to use fiscal and

monetary policy to manage the level of economic activity and to prevent excessive volatility in prices, including exchange rates.

After a relatively long stable period after World War II, the 1970s witnessed the beginning of financial deregulation in the global north. In the US, its roots were linked to breakdown of the Bretton Woods agreement, resulting in the shift from fixed to flexible exchange rates, exacerbating price fluctuations. Second, the inflation of the 1970s lowered real (inflation-adjusted) interest rates, inducing financial firms to find ways to circumvent regulations that limited their profit-making opportunities.

Government regulators and policy makers seemed prepared to ratify the desires of the financial sector. The US played a lead role in this shift, since its financial sector policies are often used as a model by other countries.⁵ By 1999, a major piece of US legislation, the Glass-Steagall Act of 1933,⁶ had been gutted, due to heavy lobbying by the financial sector. As a result, it became easier for commercial banks to engage in speculative financial activities, thus opening the financial sector up to greater volatility and risk, with potentially disastrous effects for the real economy, that is, people's livelihoods, jobs, and incomes.

In lockstep with the emergence of neoliberal economic policies and trends towards deregulation in the US, countries across the global have increasingly eliminated restrictions on capital mobility, making it easier for wealth holders to move money across borders. Wealth holders are now relatively free to "shop" the global over for the highest rates of return on their investments, with little or no control on speculative behavior.⁷ Neoliberals justify such deregulation, arguing that liberating the financial sector from regulations will allow capital to flow to investments yielding the highest rate of return; this, neoliberals, equate with the efficiency of investment. That is, capital will magnetically be attracted to the winners, as measured by high profits and thus high rates of return on investments, and will shun unprofitable, low-yielding projects.

A flaw in this analysis is the failure of neoliberals to differentiate between speculative and productive innovation-inducing investments. The former are destabilizing and costly to those who do not share in the profits; the latter produce beneficial spillover effects to the rest of the economy by potentially raising productivity growth and thus incomes.

Unfortunately, financial liberalization has created the condition for a surge in the types of short-term speculative investments that led to the Great Depression. The downsides of liberalization have been severe, affecting the real lives of people, who increasingly find their livelihoods determined by the whims and caprices of wealth holders. Apart from shifting the negative effects of speculative behavior onto those least able to navigate economic turmoil, the overall effects on national economies have been negative. Evidence of the inefficiency and waste associated with speculative investment can be found in the global economic growth slowdown since the 1980s (Table 1). The slowdown in growth rates are exactly opposite the outcome neoliberals predicted would occur financial liberalization.

Equally as worrying and detrimental is the increase in wealth holders' bargaining power vis-à-vis governments and influence on central banking.⁸ Now free to roam the globe in search of the highest rate of return on their investments, they play one capital-starved country off against another, frequently demanding concessions such as tax cuts that boost their profits. But their behavior imposes huge social costs.

I would like to trace out more explicitly the negative effects of unregulated capital flows on the macroeconomy. This is an important exercise because their widespread effects are not immediately obvious if we only consider the impact on investment. Thus, it is important to look beneath the surface at subsidiary impacts to understand how they link to broadly shared well-being.

First, wealth holders prefer low rates of inflation. Low inflation ensures that inflation-adjusted returns on investment (the rate of return on the investment less the inflation rate) are high, which is equivalent to saying profits derived from owning money rise.⁹

As a result, when finance is deregulated, countries competing to attract the pool of global capital are forced to take steps to quell fears of inflation (even if those fears are irrational). To do this, central banks have adopted inflation-targeting policies – in many cases, attempting to keep inflation close to zero. This goal perforce reduces the flexibility of central banks to use monetary policy to ensure adequate levels of employment, instead bolstering the profits of wealth holders.¹⁰

In order to lower inflation, central banks raise interest rates, thereby causing the cost of borrowing to rise. The result is that businesses (especially small firms) and households find it more costly to obtain loans. The net effect of higher interest rates is to cause job and economic growth to slow or turn negative.

It is with significant meaning that economists dub the cost of cutting inflation in terms of its effects on employment as the “sacrifice ratio” – and it should be clear the sacrifice is the livelihoods of low- and middle-income families to the benefit of wealth holders. In short, the cost of reducing inflationary pressures through monetary policy is the jobs and livelihoods of ordinary people, worsening the distribution of wealth and income.

The shortage of employment and livelihood opportunities has damaging effects on a household's ability to provide for its members. The viability of small businesses, including informal sector self-employment enterprises, suffers as well, because when jobs are in short supply, too few people have the income to spend on goods and services.

In a number of countries, women suffer disproportionately from job shortages, in part because gender norms designate men as the legitimate “breadwinners.” Data from the 2005-08 wave of the World Values Survey for a sample of 65 countries finds in fact, that 36.2% agree with the prompt “When jobs are scarce, men have more right to a job than women (World Values Survey 2009).”¹¹ Women are also disproportionately concentrated in temporary, contingent jobs,

suggesting a structural reason by which women are more vulnerable to job loss during economic downturns.

A second means by which liberalization produces negative economy-wide effects is through the impact on government spending, and thus fiscal policy. To enhance their credibility with wealth holders, many governments have been forced to reduce their budget deficits.¹² This is in response to the fact that wealth holders link such deficits to potential inflation. Again, the link may be real or imagined. In effect, due to financial liberalization, wealth holders across the global have gained (undemocratic) veto power over a country's domestic fiscal and monetary policy, and by extension, long-term growth possibilities.

This is a debilitating constraint since government expenditures, even if funded by deficit spending, can improve health outcomes, educational attainment, the conditions of roads and communications, to name a few. Expenditures on water and sanitation can make it easier for adults to provide caring labor for their families, a burden most heavily born by women. Such gender-equalizing expenditures have the benefit of "crowding in" private expenditures. That is, they tend to lower the costs of production given enough time, and raise the profitability of productive investment. Thus, government expenditures, even if funded by borrowing, can reduce inflationary pressures in the longer run.

But financial markets that are liberalized suffer from "short-termism" – that is, due to financial market deregulation, wealth holders engage in hyperactive speculative behavior, with capital able to move abruptly from one country to another, instead of acting as "patient" capital, invested for the long-term. The mobility of financial capital in response to deficit spending short circuits the beneficial effects that might ensue, given enough time. It should be clear from this discussion that a short-term speculative focus benefits wealth holders, but imposes huge costs on ordinary people. In contrast, long-term patient capital can both generate profits for investors *and* for society as a whole.

A third effect of liberalization is the increased likelihood of financial panics. More common in the age of elimination of capital controls, panics can lead to rapid capital outflows, sharp declines in asset prices, bankruptcies, and recession. The Asian financial crisis of 1997 provides evidence of such effects. In that crisis, Thailand, a country considered to on sound macroeconomic grounds and a rising star in Asian miracle, had been the recipient of large capital inflows (that is, financial investments that included loans by foreign banks to domestic banks, and direct investments by wealth holders in financial assets). Thailand looked like a good investment prospect. Exchange rates were fixed, so foreign investors felt secure that the value of their investment would not decline as a result of devaluation of the Thai currency, the baht. But by mid 1997, however, Thailand had developed a trade imbalance – it was importing more than it was exporting. That is often perceived as a signal that a country may have to devalue its currency so as to make exports less expensive and imports more expensive. A devaluation would then lead to improvement in the trade balance, which simply cannot remain out of balance for a long time without provoking dis-ease in financial markets.

Many foreign investors saw this trade imbalance as evidence of an impending devaluation of the currency. It does not matter whether that assessment was correct or incorrect. What *does* matter is that large investors sold off their Thai assets, exchanging the baht for dollars, yen, and euros, driving down the value of the Thai currency. The central bank struggled to maintain the value of the baht, but ultimately, could not. The baht was allowed to float (that is, instead of its value maintained by the central bank, it became market-determined). As a result, its value fell 40% relative to the dollar in just a few weeks. Some banks that had borrowed from foreign banks in dollars went bankrupt; others were forced to call bank loans owed by domestic firms, causing a wave of business bankruptcies, with widespread increase in layoffs. Moreover, due to the lower value of the baht, firms that relied on imported goods for production suffered a dramatic increase in costs, either closing their doors and laying off more workers or raising their prices. Thus, the panic led to not only the destruction of jobs but inflation.

The gender effects of financial crises have been well-documented (Lim 2000; Singh and Zammit 2002; Buvinic 2009; Seguino 2010; Siriname 2009).¹³ Women are disproportionately affected for several reasons. Because recessions are accompanied by job losses and men are seen as the “breadwinners”, women can experience higher rates of layoffs. This is exacerbated by women’s concentration in precarious—that is temporary, part-time, contingent, or sub-contracting employment—jobs, they are structurally likely to experience greater decline and fluctuation in earnings, especially in developing countries (Betcherman and Islam 2001).

The most recent financial crisis that began in the US in 2008 and then spread to the rest of the world is instructive with regards to the distributional effects of deregulation. Liberalization contributed to a wave of mergers, with the banking industry becoming increasingly concentrated, particularly in OECD countries.¹⁴ This consolidation has led not only to fewer banks and thus less healthy competition; it has also led to a preference for the remaining large banks to fund wealthy borrowers, to the exclusion of smaller and less collateralized segments of the population – largely women.

A perverse exception to this trend, of course, is the targeting of subprime loans to people of color and female-headed households in the US. The loan conditions, however, could be considered predatory. That is, many of these loans were originated under unfair, deceptive, or fraudulent practices. What I have described is a system of dual credit markets, one for the rich at favorable rates, and one for people of color and majority women. This has rightly been termed “financial apartheid” in recognition of the racial effects, although the gender effects should also be underscored (Montgomerie and Young 2009). The example of trends in the US offer an example of the negative distributional effects of the state’s withdrawal from setting a credit strategy that can lead to rising living standards for all income groups, not just the wealthiest strata.

It should also be noted that the 2008 recession in the US, induced by the subprime mortgage crisis, led to men losing jobs at a higher rate than women. This is because the first- and hardest-hit industries were construction and durables manufacturing. These industries are male-dominated in terms of employment.

The full effects of the crisis on gendered unemployment in the US may not be fully apparent, however. Many states are facing budget deficits, and have plans to or have already laid off state workers. Education is particularly hard hit, as evidence from two major cities, Detroit and Los Angeles, demonstrates. School districts in these cities are reported to be planning layoffs of 900 and 2000 employees, respectively (Mrozowski 2009; Blume 2009). Because women are concentrated in education and other publicly funded services (e.g., health care and child care), state budget cuts are likely to disproportionately fall on women over the coming months. This suggests that the net gender effects in terms of employment may weigh more heavily on women over time.

Apart from the effect on access to paid work, the disproportionate effects of crises on women – and the current crisis is no exception – are particularly evident in unpaid labor. As family incomes fall, and public services are cut, families have to mobilize to provide care services that had formerly been purchased in the market (e.g., prepared meals) or provided by government (home health care aids). These tasks are gendered: because women provide the bulk of caring labor, their work burden will rise disproportionately during times of economic crisis.

Further, as economist Sharmika Sirimane notes:

“When societies are in danger of collapse, for example, during severe economic turmoil as experienced by some Asian countries in 1997, there is evidence of significant rises in suicide and crime rates; abuse and violence against women; and ethnic tensions...Women bear the brunt of these social fallouts (2009: 5).”

The 2008 financial crisis that began in the US and spread to the rest of the world is only the latest incarnation of a series of banking crises that have become deeper and more widespread since the 1970s as evidenced by events in Mexico in 1994 and Asia in 1997. The most recent crisis, perhaps more so than the others, demonstrates that it is not financial liberalization alone that has undermined the well-being for ordinary citizens. Implicated in this crisis are two other key factors. The first is the increased freedom of corporations to respond to local cost pressures by relocating factories overseas or outsourcing production. This, along with financial liberalization, has contributed to the second factor, growing income inequality in most countries across the globe. The mobility of corporations has weakened the bargaining power of workers, leading to a slowdown in wage growth, and in some cases, an absolute decline in real wages.

The growing footlooseness of multinational corporations has negatively affected wage growth not only in high-income but also semi-industrialized economies (Seguino 2007). Women the global over have been particularly negatively

affected because they are concentrated in just the kinds of labor-intensive export firms that are mobile.

This creates a macroeconomic problem: as wages fall, or wage growth slows, so does workers' consumption. This has led to the central problem the global economy faces, which is one of insufficient global demand. Without sufficient buying power on the part of workers, businesses have little motivation to invest, expand output, and create jobs.

In the US, a growing number of low- and middle-income households relied on borrowing to maintain their living standards as their wages were squeezed. The consequences of this are apparent in the subprime mortgage crisis. Unsustainable credit expansion was one way economic growth continued in the face of inequality. The wave of foreclosures in the US, however, was a symptom of the bigger problem of stagnating incomes for workers and debt-financed consumption.

This summary of the effects of neoliberal policies on distribution and the incomes of ordinary citizens underscores that hitting the "reboot" button on the global economy will not work. That much is clear. But what next? The preceding analysis holds the seeds of an alternative policy agenda. Key features of a policy agenda to rectify the negative effects of the global economic crisis are: first, focus on full employment policies; second, increase the availability of credit to disadvantaged groups, including farmers, women, and ethnic minorities; and third, seek to resolve the problem of unequal income distribution that has led to insufficient demand. These three goals highlight the way forward.

V. Alternative Strategies: Credit Policy that Promotes Gender Equality and Broadly Shared Well-Being

The financial sector is an instrumental target for policies aimed at achieving the goals of full employment, economic growth, equitable income and wealth distribution, and economic stability. Numerous progressive economists have detailed mechanisms for re-regulation of the financial sector. Proposals aim at dampening the tendency for the emergence of banks that are too big to fail and limiting the risk of system failure, i.e., bank panics and asset bubbles such as occurred with the dot.com bubble of the 1990s¹⁵ and in the housing market in the 2000s (Crotty and Epstein 2006; Morgan 2009; Palley 2008). But more is needed to promote well-being and gender equality. I detail below several examples of policies that focus on provisioning, stability, and equality. A key quality of any such policy would be to shift incentives that encourage speculative financial activities to support for long-term patient investment. We must also explicitly address the maldistribution of credit.

Central banks as engines of employment growth

Central banks abandoned their role of promoting employment growth and livelihood generation during the neoliberal era. Instead, their focus on inflation targeting has starved subordinate groups of badly needed credit. Those groups, often overlapping, include people of color in ethnically divided societies, women, small labor-intensive enterprises, and the self-employed. A reformulated role for central banks should be focused on job creation and livelihood stimulus.¹⁶ In order to expand employment opportunities, central banks could utilize expansionary monetary policy, development banking, and credit subsidies.

To undertake this effort, governments would have to begin by outlining national goals for investment. A comprehensive development banking plan focused on job expansion in high unemployment countries might include subsidized credit to small-scale agriculture, small- and medium-sized businesses, and large-scale businesses that can demonstrate their ability to promote significant increases in employment relative to their total spending. Women's enterprises and cooperatives could be targeted for such subsidies and the cost to the public budget will be limited, given women's strong track record for loan repayment. The set of goals outlined by the government would then determine the central bank's credit policy.

An example of credit policy tools that could be employed to attain the country's development goals is the combination of government loan guarantees with asset portfolio requirements – requiring banks to direct a certain percentage of their loans to targeted activities.¹⁷ The loan guarantees induce banks to lower their interest rates, since the government has agreed to absorb some of the risk of the loans. The lower interest rate makes credit more accessible to some borrowers. Social benefits are achieved when credit is directed to activities that stimulate job creation and raise productivity.

Capital Management Techniques for Economic Stability

Financial liberalization is one of the root causes of increased economic volatility observed over the last three decades. Central banks can help stabilize their economies through the use of capital management techniques that help reduce variability of financial flows, especially those associated with short-term portfolio flows or speculative flows. A good example of the benefits of applying capital controls is Malaysia, which was, as a result, one of the first countries to recover from the Asian financial crisis (Kaplan and Rodrik 2001). Other countries that have adopted related techniques to regulate cross border flows of capital and regulated domestic banks with respect to external transactions (that is, transactions with foreign lenders) for are Chile, China, Colombia, and Taiwan Province of China (Epstein, Gabel, and Jomo 2004).

There is a further benefit to capital management techniques. Developing countries have been forced, as a consequence of volatility, to hold high levels of foreign reserves in order to self-insure against a financial crisis.¹⁸ Reserves drain the economy by restricting the ability of governments to spend aid and loan money on physical and social infrastructure needed to boost the domestic

economy, create jobs, and invest in expenditures that alleviate women's care burden. Capital controls help to alleviate this leakage of needed resources from the economy.

Capital Transactions Taxes and Social Insurance

A very small currency transactions tax (CTT) can provide resources to generate a pool of funds to be used for social insurance. This source of funding has several benefits. Globally, approximately \$3 trillion dollars is traded in foreign exchange markets daily, and only a very small percentage – less than 5% – is to facilitate trade. Speculative currency transactions increase financial and macroeconomic volatility, imposing costs on households not party to the transactions, especially in times of crisis. A second channel by which currency trading produces social costs is the higher level of foreign exchange reserves countries have been forced to hold to self-insure against a speculative attack. The opportunity cost of those reserves, as noted, is roughly 1 percent of GDP that could be spent on social infrastructure to the benefit of poor households, and in particular, to reduce women's unpaid care burden.

A CTT would be similar to a pollution tax in the sense that it seeks to discourage a behavior that can have negative social effects whose cost is not captured in the existing cost of trading, and in any case, is not fully born by trading parties. The CTT would offer a disincentive to engage in short-term speculative transactions, and estimates of the response of trading to a modest tax are on the order of -0.43 . Such a low tax may not quell speculative cross-border flows of money, however, suggesting that this option should be adopted in consultation with capital management techniques discussed above (Grabel 2003). Rich countries would generate the bulk of the tax revenues, and more generally, the tax would be highly progressive. A CTT also makes tax avoidance legal and socially useful. Currency speculators can avoid the tax by reducing their transactions, a response that would have socially beneficial effects on families, especially low and middle income as well as women and people of color.

Tax revenues generated from a global CTT could be pooled and earmarked for a variety of developmental purposes, including public investments in water and sanitation, a global insurance fund to respond to developing country budgetary constraints in times of economic crisis, and the MDGs. The project of establishing a CTT will require international cooperation, and it should be at the top of the list of developed economies as a means to fund social insurance, enhance macroeconomic stability, and discourage unproductive speculative financial activity by shifting the cost of the insurance to those who create systemic risk.

A global CTT could be a useful source of revenue to target gender-equalizing expenditures. Proposals for CTT rates vary, from 0.005% to 0.25%, generating between \$35 and \$300 billion in revenues a year. Caren Grown, *et al* (2006) estimate the cost of MDG 3-specific and gender-mainstreaming interventions in low-income countries at \$47 billion per year, with an expenditure stream extending for 5 years.¹⁹ That amount could easily be funded with a CTT, with

remaining funds used for a global insurance fund and other agreed upon investments in developing country physical and social infrastructure.

The state's role in maintaining full employment

The Great Depression taught us in no uncertain terms that capitalist economies are inherently unstable and indeed, irrationally erratic. Since that time, Keynesian demand-management policies had been routinely adopted by governments of a wide array of political leanings—until the 1970s, that is. Those policies entailed “leaning against the wind.” That is, during economic downturns governments would increase spend on goods and services to soften the blow of unemployment and recession, and conversely, cut government spending during inflationary periods when the cause was business and household spending that exceeded the ability of the economy to produce. During the former, government budget deficits build up, and during the latter, surpluses amass, allowing the national debt to be paid down.

A return to these counter-cyclical policies is needed on a global scale. To be sure, industrialized countries have had no difficulty in adopting such policies in response to the current crisis because they have the fiscal space – the ability to borrow in order to deficit spend, due to credibility amongst lenders. But the IMF in particular has leaned heavily in the opposite direction via the conditionalities it imposes on poor countries that must borrow from it, rather than private capital markets, during crises. Instead of supporting increases in government spending as a response to economic downturns, the IMF has required budget reductions in a number of developing countries, e.g., in Bosnia and Herzegovina, Republic of the Congo, Djibouti, Ghana, Latvia, and Mali, among others (Weisbrot, Ray, Johnston, Cordero, and Montecino 2009). Apart from the irony that this is the opposite policy that rich countries are permitted to adopt, the costs in terms of lost services and employment are painfully high amongst those who have the least savings and assets to weather economic storms. Reining in the IMF, and tempering if not eliminating its ability to impose conditionalities that strangle growth and recovery needs to be part of any humane global economic architecture that emerges from this crisis.

But that is not enough. Government spending can be usefully used to reduce inflationary pressures, especially in developing countries where the origins of the problem often lie with supply bottlenecks, not with citizens on a “consumption binge.”²⁰ Targeted spending to reduce bottlenecks – in physical infrastructure, roads, communications, but also social infrastructure, such as spending on public health can reduce production costs and therefore inflation.

Expenditures aimed at reducing women’s care burden, such as fetching fuel and water, and again, public health expenditures, can provide women more time to spend in productive activities to the benefit of families and especially children. This linkage is due to women’s tendency to spend a larger share of their income on children than men. As a result, policies that improve women’s economic bargaining power in the household reverberate with beneficial effects on children. The productivity of the labor force improves and as a result, costs of

production fall, reigning in inflationary pressures. This implies the need not only for a return to the government's role in stabilizing the economy, but also in gender-enabling expenditures that improve women's bargaining power, thus promoting gender equality.

VI. Conclusion

A fundamental guideline in economic policy making should be that it ultimately serve the needs of ordinary people who are working hard to provide for themselves and their families. That goal is undermined by inequality and economic insecurity. In the wake of the global financial crisis that has now turned into a real crisis for millions across the global, hitting the restart button and returning to the policies of the last three decades will not work. The roots of that crisis are traced to a variety of aspects of neoliberal policies, and in particular, investment and financial liberalization. Both have undermined the ability of the state to adopt equity-enhancing policies and to regulate, tax, and spend to ensure a social safety net and economic stability.

A transformative response to the crisis requires regulation of the financial sector and reforms that make key monetary institutions function on behalf of sustainable and economic development and growth. The alternative way forward, described in this paper, is one in which financial apartheid is ended, with adequate sources of capital delivered to those disadvantaged by neoliberalism, including women. Re-establishment of the state's role as an entity that facilitates provisioning, equality and stability is key to this shift. A step in this direction is the re-deregulation of capital, including controls on cross-border movements of money, and a reformed role for central banks.

Feminists and in particular feminist economists, have much to contribute to the elucidation of detailed policies that follow these broad contours but take account of local conditions. For example, a well-being centered central bank lending agenda will differ, depending on whether: an economy is heavily dependent on agriculture or not; the distribution of women and men in the productive economy; and the degree of supportive institutions such as cooperatives. Similarly, details of the structure and allocation of a global social insurance fund derived from CTTs is necessary to give traction to this alternative.

All of these proposals are inconsistent with a return to the neoliberal agenda. Although feminists have only begun to venture into the territory of macroeconomic and financial policy, this moment represents an opportunity to shape a global economy that is consistent with the goals of dignified opportunities to adequately provision for our families, equality, and economic stability.

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Tables and Figures

Table 1. Average annual per capita GDP growth rates, 1960-2005

Regions and Groups	1960-1980	1980-2005
East Asia	3.5	6.6
Latin America and the Caribbean	2.9	0.7
Middle East and North Africa	5.5	3.7
South Asia	1.3	3.6
Sub-Saharan Africa	1.6	-0.1
Heavily indebted poor countries	0.5	-0.2
Middle Income	3.4	2.3
OECD	3.7	2.1
World	2.6	1.4

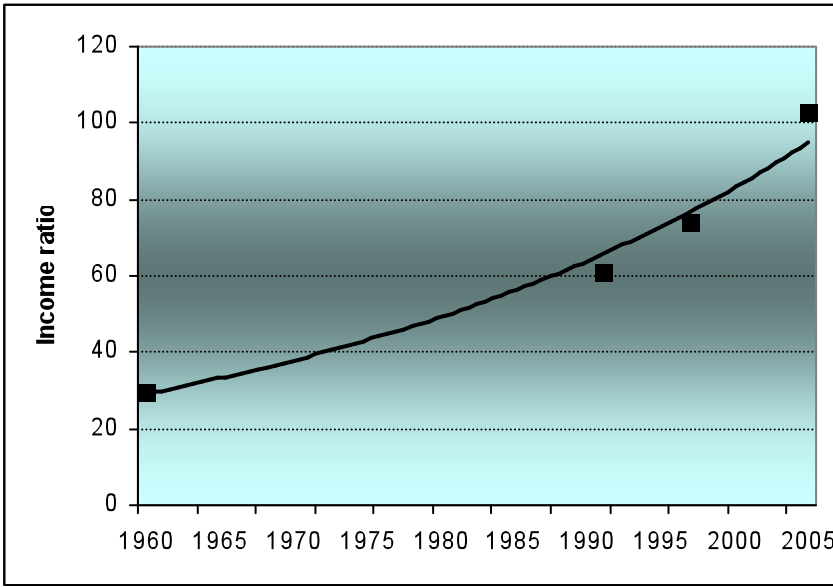
Source: Author's calculations from World Development Indicators 2008 (online).

Table 2. Ratio of incomes of richest 20% of households to poorest 20%

Year	Ratio
1820	3:1
1870	7:1
1913	11:1
1960	30:1
1991	61:1
1997	74:1
2005	103:1

Source: UNDP (2005, 2008) cited in Ortiz (2008).

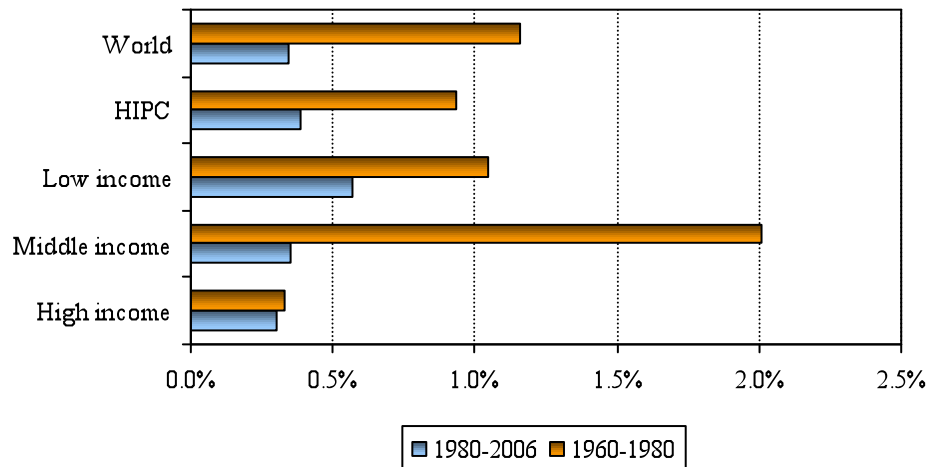
Figure 1. Accelerating inequality: The richest 20% share of global income relative to the poorest 20%



of 0.981.

Source: Author's calculations with data from Ortiz (2008).

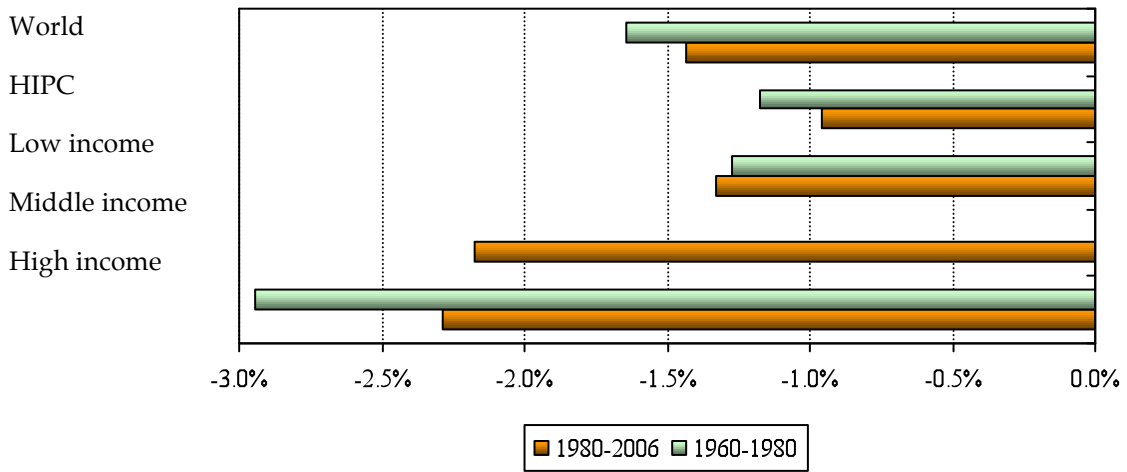
Figure 2. Rate of average annual increase in life expectancy, 1960-80 and 1980-2006, by country income group



Note: HIPC is Highly Indebted Poor Countries. Countries are categorized according to World Bank lending categories, based on country Gross National Income. Low income is \$975 or less, and high income is \$11,906.

Source: Author's calculations with data from World Development Indicators, 2008 (CD-ROM).

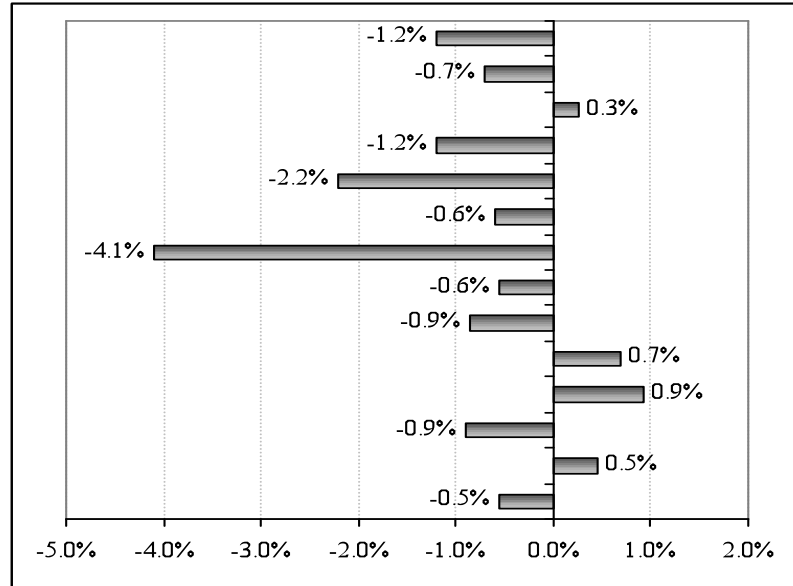
Figure 3. Rate of average annual decline in infant mortality rates, 1960-80 and 1980-2006



Source: Author's calculations with data from World Development Indicators, 2008 (CD-ROM).

Figure 4. Changes in the ratio of females to males (difference between average ratio in 1960-80 and 1981-2006)

World
 HIPC
 Low income
 Middle income
 High income
 East Asia/Pacific
 Europe/Central Eur.
 Middle East/N. Africa
 Sub-Saharan Africa
 South Asia
 Latin America/Carib.
 China
 India
 South Korea



Note: The change in the ratio is calculated as the female to male population ratio, averaged across 1981-2006 minus the ratio, averaged across the previous period, 1960-80. South Asia includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

Source: Author's calculations with data from World Development Indicators 2008 (CD-ROM).

APPENDIX

Table A1. Ratio of females to males in the population, 1960-2006

	1960-1980	1981-2006	Change
World	99.2	98.0	-1.2
HIPC	101.5	100.8	-0.7
Low income countries	95.5	95.7	0.3
Middle income countries	99.4	98.2	-1.1
High income countries	104.2	102.0	-2.2
East Asia and Pacific	95.9	95.3	-0.6
Europe and Central Europe	112.0	107.9	-4.1
Middle East and North Africa	98.1	97.6	-0.5
Sub-Saharan Africa	102.2	101.3	-0.8
South Asia	92.1	92.7	0.7
Latin America and Caribbean	100.1	101.0	0.9
China	94.3	93.4	-0.9
India	91.7	92.1	0.5
South Korea	99.3	98.7	-0.5

Source: Author's calculations with data from World Development Indicators 2008 (CD-ROM).

ENDNOTES

¹ “Rebooting” refers to the common practice of hitting the restart button on computers after systems freeze or crash.

² This list is not exhaustive. Other features include deregulation (the elimination of regulations on economic activity, as well as in areas such as anti-discrimination legislation, as well as environmental and financial regulation); the flexibilization of labor markets, including the elimination of trade unions; and privatization (the sale of state enterprises and privatization of basic social services and amenities, such as water, electricity, and telecommunications).

³ East Asian economies are the only exception, and this is perhaps not surprising, since these countries took a different path. Countries like Japan, South Korea, and Taiwan, and later China, engaged in trade and investment liberalization but under terms that benefited their own economies in terms of technological innovation and employment growth and stability (Wade 1990; Amsden 1989, 2001; Seguíno 2007). The state has played a pivotal role in these countries in managing trade and investment and in moving these economies up the industrial ladder to the production of sophisticated and high-tech goods. This kind of productive capability provides the conditions for high wages and job stability. Key to growth in these countries has also been the regulation of financial markets and central banks that adopted policies consistent with the development strategies of the state, allowing targeted investment at subsidized rates.

⁴ For a useful summary of globalization’s effects on well-being, see Weisbrot, Baker, and Rosnick (2008).

⁵ China, for example, has modeled its policies on separation of banking activities from investment after the Glass-Steagall Act. It is noteworthy that China was relatively unharmed by the Asian financial crisis of 1997, and in the aftermath of the 2008 global economic meltdown has reaffirmed its commitment to such regulations.

⁶ The Glass-Steagall Act established the Federal Deposit Insurance Corporation, thus establishing the government as a lender of last resort to prevent widespread banking failures. It also included banking reforms to control speculation; this was done by regulating banks so as to separate investment and commercial banking activities.

⁷ Countries that do have capital controls, regulating the speed at which money flows across borders, are Chile, Malaysia, South Korea, Taiwan, and China.

⁸ Galbraith, Giovanni, and Russo (2007) provide an empirical analysis of the influence of politics on Federal Reserve interest rate setting, with evidence that monetary policy setting has been biased towards Republicans, by lowering interest rates in advance of election years when a Republican president held office. This boosts the level of economic activity, thus promoting a perception of economic prosperity under Republican rule. In contrast, the evidence provide indicates the Fed raised interest rates in advance of elections in which a

Democratic president held office.

⁹ Economists call profits obtained from holding wealth “rentier” income, rentiers being wealth holders. Epstein (2005) provides evidence that rentier income has risen substantially in the neoliberal period.

¹⁰ Inflation targeting is a case where ideology has trumped economic evidence. Central banks, in setting a low inflation target, argue that low inflation is required to stimulate growth. And yet, a growing body of research, including the work of World Bank economist Michael Bruno, has demonstrated that inflation below 20-40% does not have a negative effect on growth, although the evidence does suggest that this policy focus contribute to a redistribution of income to the wealthy. See for example Pollin and Zhu (2006).

¹¹ Data accessed online on October 9, 2009 at <http://www.worldvaluessurvey.org/>

¹² Financial markets assume that budget deficits lead to inflation, perhaps under the assumption that output is fixed, so with more government spending, that is with more money chasing too few goods, the only effect will be higher prices. This stance ignores that government spending can raise productivity and lower prices of production, and thus are not inflationary. Moreover, most government deficit spending occurs in the context of widespread unemployment, indicative of a great deal of unused capacity in the economy to raise output without inflation.

¹³ See also <http://www.economicsofcrisis.com/>.

¹⁴ While this section emphasizes important financial sector reforms, the list of proposals is far from exhaustive and would need complementary policies to be effective in promoting well-being for ordinary people. For an example of a progressive, that is equitable, proposal, see for example “A Progressive Program for Economic Recovery and Financial Reconstruction.”

http://www.peri.umass.edu/fileadmin/pdf/other_publication_types/PERI_SC_EPA_full_statement.pdf.

¹⁵ The dot.com bubble extended roughly from 1998 to 2001. This was a period of speculative investment in the Internet sector, with dramatic increases in the stock values of Internet firms. Investors believed that the Internet’s future profitability would yield them handsome returns on their investments. But the frenzy to buy Internet stock drove prices up to unrealistic levels. A variety of factors contributed to a sharp decline in the value of technology stocks in 2001.

¹⁶ For more on reform of central banks and monetary policy, see, for example, Crotty and Epstein (2006), Epstein (2006), and Palley (2008).

¹⁷ See Pollin, Heintz, Epstein, and Ndikumama (2006) for an application of this approach to the case of South Africa.

¹⁸ Some countries such as China, however, appear to hold high levels of reserves to prevent an appreciation of their currency. This reflects their strategy to rely on exports as a vent for surplus. There are other options to amassing reserves. One would be to permit the currency to appreciate, and then allow domestic wages and public sector spending to increase, thereby generating the domestic demand to replace lost export sales from the currency appreciation. Women would benefit substantially from this strategy. They had been very negatively affected by the government retrenchments in previous years, absorbing a large share of the layoffs.

²⁰ That is, a poorly understood fact is that the causes of inflation, especially in developing countries, often lie on the supply side of the economy, not on the demand side. Inflation targeting is a poor tool to address the source of a supply-side problem.