RESEARCH PAPER

ENGENDERING FISCAL SPACE:

THE ROLE OF MACRO-LEVEL ECONOMIC POLICIES

Stephanie Seguino

APRIL 2025
UN Women

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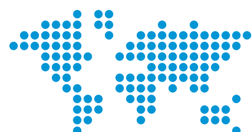

ECONOMIC EMPOWERMENT SECTION
UN WOMEN
New York, April 2025

ACKNOWLEDGEMENTS

Engendering Fiscal Space: The Role of Macro-Level Economic Policies is a background paper for *Anuradha Seth. 2025. Engendering Fiscal Space: A Policy Framework for Financing Gender Equality. New York: UN Women.* The paper was informed by experts and feminist economists who provided invaluable feedback during an Expert Group Meeting (EGM) held in January 2023, hosted by the Istanbul Technical University (ITÜ), and a second one, held virtually in July 2024.

The early stages of this work were supported by the UN Women–ILO Joint Programme on *Promoting Decent Employment for Women through Inclusive Growth Policies and Investments in the Care Economy*, a 2019–2023 programme funded by the Swiss Agency for Development and Cooperation (SDC). The aim of the programme was to build a political consensus for the adoption of macro-level economic policies that promote gender equality, and to assist in the identification of sectoral and industrial policies that tackle occupational and sectoral segregation and enhance women's access to decent employment opportunities. Further, the programme's goal was to ensure that adequate funding goes to the care sector, both as a way to promote women's access to employment and to redistribute care work between men and women within the household, but also between the household and the state.

Upon completion of the above-named programme, the work now continues under UN Women's programme on *Transformative Approaches to Recognize, Reduce, and Redistribute Unpaid Care Work in Women's Economic Empowerment Programming in Rwanda and Senegal*, a 2023–2025 programme funded by the German Federal Ministry for Economic Cooperation and Development (BMZ). The overarching goal of the programme is to remove the structural barriers to women's full and equal participation in the economy by recognizing, reducing and redistributing unpaid care work.

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Editor: Andy Quan. *The report has been edited according to the UN Editorial Manual and the UN Women Style Guide.*

Design: Oliver Gantner

Recommended citation: S. Seguino. 2025. *Engendering Fiscal Space: The Role of Macro-Level Economic Policies*. New York: UN Women.

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1.

INTRODUCTION

The UN Women–ILO Joint *Programme on Promoting Decent Employment for Women through Inclusive Growth Strategies and Investments in Care* seeks to build a political consensus for the adoption of macro-level economic policies that promote gender equality, and to assist in the identification of sectoral and industrial policies that tackle occupational and sectoral segregation and enhance women's access to decent employment opportunities. Further, the programme's goal is to ensure that adequate funding goes to the care sector, both as way to promote women's access to employment and to redistribute care work to the public sector and men.

Feminist economists have underscored the potential for macroeconomic policies to create the conditions and generate the resources to fund gender-equalizing investments. This is especially important as support from international financial institutions (IFIs) and bilateral aid agencies has proven inadequate and, in some cases, problematic due to the conditionality imposed on developing countries. The overarching question to be addressed is what can be done to expand the limited fiscal space which developing countries have for such investments.

To answer that question, this background paper advances an analytical framework that expands the scope of our understanding of conventional definitions of fiscal space. A comprehensive definition should reflect the nature of investments in gender equality—that these are precisely that: investments that raise living standards and stimulate growth, generating returns into the future. This contrasts the viewing such expenditures merely as discretionary government spending. Further, the stimulus of gender equality investments to GDP and tax revenues potential is realized over a longer time frame than fiscal space is typically analysed.

This paper also explores a variety of macro-level policies and financing instruments developing countries may adopt to create greater fiscal space, more broadly defined, in support of increased investments in gender equality. Many macro-level policies on the surface appear to be gender neutral. Their adoption would nevertheless create more space for public spending in developing countries. The recommended policies and regulatory changes depend on the structure of the developing economy. Not all policies are relevant for all countries.

2.

CONCEPTUALIZING FISCAL SPACE

Conventional definitions of fiscal space emphasize countries' potential to expand their financing capacity to fund public spending. The International Monetary Fund (IMF) defines fiscal space as "the difference between the current level of public debt and the debt limit implied by the country's historical record of fiscal adjustment" (Ostry et al. 2010: 6). Peter Heller (2005: 3), then Deputy Director of the IMF Fiscal Affairs Department, defined fiscal space as "the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government's financial position." In both definitions, fiscal space is debt-focused, conceptualized in residual terms with a focus on borrowing capacity.

In contrast, a developmental definition of fiscal space emphasizes concrete policy actions for mobilizing domestic resources and the related reforms necessary to create an enabling environment for policy actions to be successful (Roy et al. 2007: 1). This approach reflects the added potential for policy and regulatory changes to increase the ability to use public expenditures for developmental purposes. This expanded framework therefore goes beyond financial sustainability to include social and environmental sustainability. Indeed, pursuing financial sustainability is meaningless without also addressing the social and environmental dimensions of sustainability.

Numerous methods for measuring fiscal space exist, the most simple and straightforward being net public debt to GDP ratio, with an emphasis on determining a country's debt limit (Cheng and Pitterle 2018).[1] Assessments of fiscal space have tended to be short-term rather than intertemporal. That is, they do not account for the lagged impact of government expenditures on GDP and GDP growth.[2] This is an important omission because public sector spending can have multiplier effects, stimulating growth and reducing the debt to GDP ratio, thus expanding fiscal space. Therefore, methods that are not intertemporal are inadequate for assessing fiscal space for gender equality investments, which a growing body of research shows to have positive effects on GDP growth (Seguino 2019). The macro-level effects of greater gender equality result from the productivity-enhancing effects of greater equality in education, health, employment and improvements in children's well-being. In essence then, gender equality investments can contribute to the creation of fiscal space, even if narrowly defined as the borrowing potential of governments.

A further limitation of the conventional approach to measuring fiscal space is the use of GDP as an indicator of output (and thus ability to service debt). National accounting conventions as reflected in GDP are arbitrary measures that reflect a particular understanding of the economy. For example, some government spending that has an investment character (i.e. yields returns over a long time horizon by raising the productivity of the economy) but is conventionally characterized as discretionary government spending. An example, which is discussed in more detail in the next section, is fixed on care services, which raise human productivity. Further, GDP, because it includes economic bads (expenditures, for example, on cigarettes) and ignores some economic goods, like volunteer work or care work, is mismeasured. Basing an assessment of fiscal space on the debt-to-GDP ratio can yield flawed results. An alternative denominator is needed in that equation. One possibility is the number or growth in decent well-paid jobs that generate tax revenue to pay down the debt incurred from borrowing.

Moreover, when conceptualized as prospects for resource mobilization, fiscal space encompasses a much broader landscape than a focus on borrowing and debt limits. For example, a missing aspect of the fiscal space debate is how policies and regulations at the macro-level can also contribute to fiscal space, that is, reduce demands on the public sector budget that could then be reallocated to spending to promote gender equality. Further, monetary policy can contribute to fiscal space. It can do so by using central bank tools to incentivize lending to strategic sectors of the economy, including gender equality. This tool has not been explored in mainstream analyses of fiscal space because of a bias towards "independent" central banks—that is, central banks that conduct monetary policy independently of the government's policies and goals. Independent central banks tend to have a narrow focus on inflation, using interest rates as the primary tool of monetary policy. They eschew the task of pursuing developmental goals.

In this paper, I adopt the broader definition of fiscal space, conceptualized as actions taken to enhance resource mobilization. I then explore methods for expanding fiscal space that, in addition to borrowing capacity, account for the effects of spending that promote gender equality and by implication, tax revenues, as well as policy and regulatory actions that can free up public sector resources for investment in gender equality. In addition to external financing through borrowing and aid, much attention has already been given to exploring how taxation and expenditure switching can generate fiscal space. I therefore devote the majority of what follows to exploring novel methods for creating fiscal space. In addition to discussion of some new taxation areas to consider and innovative financing instruments, I evaluate the potential for monetary policy and macroprudential policies that manage capital flows to be tapped for fiscal space.

Evaluating a country's fiscal space should be done on a case-by-case basis. Feasible actions to expand fiscal space depend on a country's structure of production and stage of development. For example, many low-income countries have relatively low public debt levels, which would suggest they have ample fiscal space to undertake public investment. But for many of these countries, their export and import structure and ratios to GDP result in their greater macroeconomic volatility than middle income and developed economies. As a result, they are required to hold large foreign exchange reserves to ensure that a central government agency has emergency funds if their national currency rapidly devalues due to macroeconomic instability or current account imbalances, for example. Central banks hold their foreign exchange reserves primarily as low-yielding short-term US Treasury (and other) securities, making those funds unavailable for lending in the domestic economy.

3. MACRO-LEVEL POLICIES FOR CREATING AND EXPANDING FISCAL SPACE FOR GENDER EQUALITY INVESTMENTS

Macro-level policies relevant to creating and expanding fiscal space take three broad forms: fiscal policy (government spending and taxation), monetary policy (the use of tools to target access to credit) and macroprudential policies (financial policies and regulations to support stable growth). In the following discussion, I identify specific policies and regulations that can be used to create fiscal space, depending on the country's economic structure, institutional environment and stage of development. At the outset, it is useful to note that some of these policies are not particularly "gendered." That is, they are not explicitly targeted at women. They simply create fiscal space, that is, a greater capacity for government investment spending to achieve developmental goals.

3.1. Fiscal policy

3.1.1. Government spending

Fiscal policy has two components: government spending and revenue generation (taxation). In theory, we might discuss these separately, but, spending and tax policy are two sides of the same coin and thus, where relevant below, I discuss them simultaneously.

a) Expenditure switching

A key issue for resource mobilization is how effectively government spending is targeted. Numerous authors have emphasized that fiscal space can be expanded (or at least be budget-neutral) through expenditure switching. For example, subsidies to large landowners and mineral extracting firms may be reduced with those subsidies redirected towards investments that promote gender equality. Because this topic has been well covered, I only briefly touch on some aspects of this option as a mechanism for creating fiscal space for gender-equalizing investments. At issue in making expenditure switching decisions is the impact on economic growth. Removing subsidies to agribusiness firms and mineral extractors, for example, may have little if any negative impact on their investments in a country and thus growth. That is because the resources these types of industries rely on are not mobile across borders. They are in essence tied to the domestic economy. Moreover, if these firms are import-intensive, subsidies "leak" out of the domestic economy, reducing the positive effect of their investments on growth and thus fiscal space. In contrast, shifting government spending to investments in physical and social infrastructure can stimulate productivity, creating decent well-paid jobs that generate tax revenue, reducing the debt burden and creating fiscal space. A plethora of studies have offered empirical evidence that public investment has an important role to play in creating the conditions for gender equality.

b) Public investment

Recent studies have demonstrated the important role that public investment has to play in creating the conditions for gender equality (Agénor and Agénor 2023; Small and van der Meulen Rodgers 2023). Public investment can be an important tool to both expand employment opportunities and promote women's livelihoods while also reducing gender competition over scarce jobs (Antonopoulos et al. 2011; De Henau and Himmelweit 2016; İlkkaracan et al. 2021; Bargawi and Cozzi 2017). Public investment stimulates employment as businesses hire more workers to meet increased aggregate demand. Moreover, targeted public investment can leverage or "crowd in" private investment by lowering production costs, further stimulating aggregate demand and employment growth. Because public investment can raise economy-wide productivity (Bayraktar and Moreno-Dodson 2010), it has two beneficial features. It creates fiscal space in the long run by stimulating income growth, expanding the taxable income base (Seguino 2012). Secondly, well-targeted investment can be anti-inflationary if it addresses supply bottlenecks that drive up prices, reducing pressure on central banks to raise interest rates.

Apart from these general effects of public investment, the state has the potential to redress inequalities and discrimination in the household, asset ownership and labour markets through targeted budget allocations. Feminist research has identified that it is useful to divide public investment into two subcategories: *physical and social infrastructure investment.*

Physical infrastructure investment. Research identifies a significant link between physical infrastructure expenditures, women's unpaid care burden and the growth of potential output (Agénor et al. 2010; Agénor and Agénor 2023; Small and Rodgers 2023). Targeted investments can reduce women's unpaid labour burden, freeing up their time to spend in remunerative labour activities, with benefits for gender equality and intrahousehold bargaining power (Chiappori and Meghir 2014). Children's well-being and economy-wide long-run productivity growth also benefit.

As an example, in low-income developing countries, improved water and sanitation facilities decrease illness and time spent fetching water, tasks that contribute significantly to the unpaid labour burden (UN Women 2014). This is considered "women's" work, and in regions where this burden is very high, rates of child labour are also higher, with negative effects on educational attainment. In economies at all levels of development, transportation improvements reduce the time women spend in marketing goods and in provisioning for households, and improve women's ability to access services and labour markets.

Further, a large body of evidence indicates that women's increased access to income results in more resources invested in children's health, education and development. This is due to women's propensity to spend a larger share of their income than men do on children (Doss 2013). Improvements in mothers' health have been found to affect children's health and that there is evidence of long-term positive effects on children's cognitive skills and thus productivity. These linkages imply that physical infrastructure investments which reduce women's care burden and improve their health have long-term economic benefits in the form of a healthier, more educated and productive workforce (Agénor et al. 2010). Small and Rodgers (2023) identify the employment effects of various types of physical infrastructure investments, which are amplified by reductions in unpaid care labour that result from those investments.

Social infrastructure investment. The use of the term "social infra-structure" originally referred to physical infrastructure projects for social use, such as school buildings and medical clinics.[3] Feminist economists have since redefined that term to account for the positive externalities generated by spending on childcare, education and healthcare that promote human capacity development (Campbell et al. 2013; Elson 1993 and 2016; Himmelweit 2016). In this usage, social infrastructure refers to the fundamental social, intellectual and emotional skills and health of individuals—or level of human development— a country relies on for its economy to function.[4] Unlike physical infrastructure—

such as bridges, roads and telecommunications systems —which tend to be publicly owned, social infrastructure is embodied in people and is enhanced via social spending by governments. Investments in people's capabilities are theorized to have a public goods quality with positive spillover effects on economy-wide productivity. Such investments are therefore more properly classified as social infrastructure spending rather than government current consumption or even simply human development expenditures.

Feminist economists have emphasized the potential for such investments to be self-financing. This is because investments of this kind have the capacity to raise incomes and thus generate a stream of revenue in the future, thereby creating fiscal space in the long run (Elson and Warneke 2011; Seguino 2012). More specifically, by expanding the productive base of the economy, such investments generate a flow of revenues into the future, made easier if increases in human productivity can be converted to higher incomes.[5]

An expanding body of work quantifies the impact of such expenditures on GDP. These and similar studies can be used in assessments of intertemporal fiscal space. That is, they can be used to estimate fiscal space over, say, a 10-year period, accounting for the endogenous effect of public investment on growth and thus the public sector budget.

Several studies provide evidence that closing the education gap between boys and girls has a positive effect on economic growth (Klasen and Lammana 2009; Bandara 2015). Bandara (2015) finds, for example, that total annual output losses due to gender gaps in effective labour (the combined effect of inequality in education and labour market productivity) could exceed US$60 billion for sub-Saharan Africa. There are several explanations for the positive growth effects of closing these gaps. Underinvestment in female education, female exclusion from jobs, and job segregation result in selection distortion, reducing the efficiency of such investments. In addition to the direct productivity effects of closing educational gaps, more education for women makes it easier for them to control their fertility and spend time in the paid labour market (in economic terms, more education raises the opportunity cost of care work). An additional economy-wide effect is that with more education and lower fertility, there are typically more resources available to invest in each child and a positive effect on the quality of the future labour supply.

Social infrastructure spending can promote gender equality in employment in another important way. Because of the gender division of labour with women more likely to be employed in social service activities or the paid care sector of the economy, public spending in this area can narrow gender employment gaps. Several studies quantify the differential effect of public sector spending on social compared to physical infrastructure. İlkkaracan et al. (2015) investigated what could be the potential employment effects of a TRY (Turkish lira) 20 billion expenditure on childcare centres and preschools versus public infrastructure and housing (the construction sector). They found that while employment in the construction sector would increase by 290,000 persons (of which 6 per cent would be women), the same amount invested in childcare and preschool would generate 719,000 new jobs, where 73 per cent would go to women.

Similarly, Antonopoulos et al. (2011) present simulation results to show that investment in early childhood development and home-based healthcare—social service delivery sectors in the United States—creates twice as many jobs as the same level of expenditures on physical infrastructure (which creates jobs in construction and energy). The authors found that those jobs are more effective at reaching disadvantaged workers and people from poor households with lower educational attainment. In summary, in terms of efficiency per dollar spent, social infrastructure spending is likely to have a larger job multiplier and have a greater effect on gender employment gaps.[6]

More generally, research on the growth effects of social protection programmes reveals that such spending, at a minimum, is cost neutral in the medium to long term (5 to 10 years or more). Although social protection is a broader concept than social infrastructure investment because social protection includes social safety net programmes, the empirical estimates from these studies provide some insight into the potential multiplier effects of social spending. Social protection programmes can be divided into three groups: 1) social assistance in

the form of cash and non-cash transfers and child/family allowances, 2) social insurance, which is typically via contributory unemployment, pension and health insurance programmes, and 3) labour market programmes. Low-income households in particular benefit from such programmes and women, whose wages are lower and employment more likely to be insecure, are especially supported by social protection programmes.

A recent study finds that the short-term social protection spending effects in Brazil on GDP are comparable to those of public physical infrastructure spending (Sanches and Carvalho 2023). Estimates indicate that spending one unit on social expenditures generates a multiplier of 3 after almost 2 years. The large increase in GDP resulting from a one unit increase in social spending in such a short time period reflects the relatively immediate impact on consumption and investment, likely due to the fact that social assistance typically goes to those with a higher marginal propensity to consume. Human capacities development is improved with spending on social protectiong, and as a result, economy-wide productivity growth, again with positive effects on GDP growth and thus tax revenues, which can be used to pay down the debt incurred (assuming spending was financed by borrowing) and creating fiscal space.

Estimates of multipliers of social protection spending for other developing countries produce similar positive effects on GDP. A social accounting matrix simulation for Bangladesh, Colombia, Costa Rica, Georgia, Ghana, India, Rwanda and Serbia finds that a 1 per cent increase in social protection investments results in a 1.1 per cent increase in GDP, and a 1.8 per cent increase in tax revenues (ITUC 2021). Multipliers vary by country in that study, with Ghana showing the smallest multiplier (0.7) compared to Rwanda's 1.9 GDP multiplier.[7] The size of the multiplier is influenced by the degree to which the economy is driven by domestic demand, with relatively lower import ratios yielding larger output multipliers (because of the smaller leakage effect). The cumulative effect of social protection spending after 10 years results in a 3.9 per cent increase in GDP in Ghana and up to 7 per cent in India.[8] Tax revenue multipliers (measured as tax revenues as a percentage of GDP) are even larger than GDP multipliers for all countries in the sample, ranging from 0.9 in Ghana to 2.9 in Rwanda for one year. The 10-year cumulative tax revenue multipliers span 2.5 (Ghana) to 10.4 (India). The implication of these estimates is social protection spending pays for itself in the form of higher tax revenues, an effect that is even more pronounced if evaluated over 10 years.

Cardoso et al. (2023) did an estimate of social protection multipliers for 42 countries. They found that social protection expenditures have positive and persistent multiplier effects, and furthermore that the magnitude of these multipliers tends to be larger than for other categories of government expenditure. They also find that the size of the social protection multiplier is especially large in poorer and/or more unequal countries.

c) Countercyclical policies

Countercyclical policies refer to government stimulus in response to economic downturns. From a Keynesian perspective, the fiscal stimulus (funded through deficit spending and/or increased taxes) fills the hole left by declines in private consumption and investment. It may seem counterintuitive to link fiscal space to countercyclical spending by governments. The point I want to make here, however, is that the failure to engage in countercyclical spending can have even more negative effects on fiscal space than doing nothing—and that countercyclical spending can in fact attenuate the narrowing of fiscal space that results during recessions.

In contrast, conventional economic theory argues that as public sector revenues fall during economic crises, austerity measures should be adopted to reduce public sector budget deficits. Austerity measures, it is argued, give confidence to financial markets, allowing credit and investments to flow, generating private sector growth, and creating jobs. However, the negative human effects of austerity go unaccounted for in this theoretical formulation. In contrast, feminist economists have found that economic instability and reduced social spending have long-term negative effects on human development and productivity, in part through the gender effects of crisis and austerity. Women bear greater responsibility for care of children; they are also among the hardest hit by crises and austerity because they control fewer resources, are more concentrated in low-wage jobs that are insecure, and lack benefits (Karamessini and Rubery 2013).

To see this, consider the effects of an economic downturn. Decreases in private sector spending have a multiplier effect, contributing to even larger declines in aggregate spending. To avoid not only higher unemployment and greater demands on social protection programmes that arise during economic downturns, government spending serves as a demand injection. Just as there is a negative multiplier effect from decreases in private sector spending, on the public sector side, spending increases have a positive effect on aggregate demand, output, employment and as a result, tax revenues.

The size of the multiplier is smaller in open economies (small island economies, for example) than in more closed economies—that is, economies that have smaller shares of imports and exports in GDP (e.g. India and Indonesia). This is because a portion of increases in government spending leak out of the domestic economy for imports, which rise as income rises. Multipliers also differ, depending on what government spends on. Social and physical infrastructure spending, because they are forms of investment that crowd in private investment and stimulate productivity growth, have a larger multiplier effect than other types of spending (e.g. such as subsidies to agribusinesses and large corporations or on the military). This spending differentially supports women, who are often hardest hit by crises.

Countercyclical spending can also attenuate hysteresis —the negative effect of sustained economic downturns on labour productivity. That negative effect results from the effect of long-term unemployment on workers' skills and thus productivity, or simply the physical effects of deprivation on health and therefore productivity. Because of women's predominant responsibility for social reproduction, these effects are transmitted to children—and the impact can be long-lasting. Neuroscience research over the past 20 years details the mechanisms by which this occurs—although economists have yet to recognize its lessons and significance (Katsnelson 2015). Everyday hardship associated with poverty causes neurobiological changes and children's brains are especially susceptible. The effects are harsher on poor than on wealthy families. A recent study shows, for example, that the brains of children in families with higher income and more parental education have larger surface areas than their poorer, less-educated peers (Noble et al. 2015). The regions of the brain most affected are those associated with language and executive functioning, emotional control and memory, negatively impacting the development of children's cognitive skills. These effects last well into the adult life. Thus, while countercyclical policy is often viewed as a temporary response to an economic downturn, the way countries respond can have long-run effects on economic growth.

The funding source for countercyclical spending varies widely by countries' stage of development. In developing countries, deficit spending and thus borrowing may be limited by already high debt-to-GDP ratios. Without a change in the way international finance institutions and credit rating agencies evaluate fiscal space, these countries will face borrowing challenges because of the short-term approach to evaluating fiscal space which often ignores the growth-inducing effects of targeted government spending. To address this, developing countries will need to begin to change the narrative and thus reconfigure evaluation methods of fiscal space by emphasizing the long-term investment quality of government spending, requiring alternative methods for calculating fiscal space.

While it is beyond the scope of this paper to develop a new intertemporal methodology for calculating fiscal space, I suggest that the basic approach should be a long-term (10 years or more) public sector budget constraint, capturing the effect of spending on the creation of well-paid jobs and growth, with tax revenues thus a function of GDP. It is precisely these multiplier effects that have not been accounted for in conventional measures of fiscal space. Such an approach might also take account of environmental effects of targeted government spending that produces positive human-level outcomes (such as better health) and higher rates of growth.

Institutionally, a shift from reliance on private credit rating agencies to public agencies is needed (UNCTAD 2020). This is not only due to the limited time horizon used by private credit rating agencies which meets the interests of investors but is unresponsive to long-run development goals. It is also because they suffer from conflicts of interest (favouring the economies or corporations where agencies reap most of their profits).

Further, most ratings analysts are from advanced economies without a full or deeper understanding of developing country conditions and dynamics, let alone a fully informed gender perspective and appreciation of the role of the care economy. Investigation into the rating techniques of private credit rating agencies finds that indicators used by credit rating agencies include not only objective but subjective measures, with an austerity bias (Ghosh 2021). Several proposals have been advanced for the creation of an independent multilateral rating agency in lieu of reliance on private agencies (Griffiths-Jones and Kraemer 2020; UNCTAD 2020).

3.1.2. Tax policies

The potential for increases in taxation to create fiscal space has been widely discussed. Those discussions are often conveyed with a sense of pessimism due to perceptions of scarcity. Scarcity, however, is in good part a social and political construct, resulting from the effects of globalization and neoliberal macroeconomic policies that have led to a decline in tax rates on the wealthiest and on capital. In many countries, the progressivity of taxation has declined, leading to budget cuts and/or higher tax rates on lower income groups. Average global corporate income tax rates (direct and indirect) have fallen from 38 per cent in 1993 to 24.3 per cent in 2017 (KPMG 2010; KPMG 2017).[9] As Rodrik (1997) notes, this has meant that the immobile factor of production—labour—increasingly bears the tax burden. This, coupled with the declining wage share of national income has led to downward pressure on public spending, creating a fiscal squeeze.

Here, I wish to identify areas not commonly considered in the quest for greater fiscal space through taxation. The global policy climate is changing, in part due to disillusionment with globalization and liberalization, which has led to a sharp increase in inequality and diminished resources for raising living standards. There is thus political space and an intellectual openness to types of taxation that could reduce income inequality and, at the same time, generate the resources for major public investments in gender equality.

a) Export and import tariffs

Export and import tariffs had been largely abandoned or sharply reduced as sources of tax revenue since the 1980s, due to the pressure rich countries have placed on developing countries to liberalize trade. But taxes on exports and imports can improve public sector budgets. Import taxes can, for example, be targeted to luxury goods. In effect, such taxes can facilitate a redistribution from the wealthy to low-income groups if those taxes are directed to physical and social infrastructure spending. In the past, low-income countries with limited capacity to administer complex tax systems relied heavily on export Free On Board (FOB) taxes on primary commodities like coffee, cacao, cotton and jute. Judiciously reinstituting export taxes on goods that are price inelastic and for which firms are immobile are good targets for export taxes. One concern with export taxes is that exporting firms may pass the tax on to small producers. Hence, the structure of commodities markets in individual countries will have to be evaluated to understand the potential impact of imposing or increasing export taxes. Export taxes on extractive industries, however, are not likely to contribute to this problem. While higher taxes on exports of minerals and oil may lead to downward pressure on worker wages, governments can offset this with strong minimum wage laws.

b) Windfall profit taxes

The COVID-19 pandemic led to windfall profits in several industries. Several countries, including Croatia, Italy, Portugal, Romania and the United Kingdom, enacted various kinds of windfall taxes. Windfall profit taxes can reduce the incentive of firms to raise their prices in response to shortages, thus also slowing inflation. Of course, multinational corporations could avoid such taxes by shifting their profits to the country they have subsidiaries in that has the lowest tax rates. As a way to avoid this, François et al. (2022) proposed a levy on windfall profits based on the increase of stock market capitalization of publicly traded firms rather than profits. The rise in market capitalization would be apportioned proportionate to the fraction of global sales made in a particular country. Alternatively, low-income countries may impose the tax on production rather than profits, again to avoid profit shifting by multinational companies to countries with lower tax rates.

c) International financial transaction taxes

International financial transaction taxes (IFTTs) are taxes imposed on the purchase and sale of financial securities and currency exchanges. Taxes on financial transactions are not new. For example, the United States imposed a stock transactions tax from 1914 to 1965. Several countries have already implemented taxes on financial transactions. France adopted an IFTT in 2012. Kumar and Gallagher (2022), making new calculations of the potential revenue to be generated from a combined tax on financial and currency transactions, noted that global foreign exchange transactions exceeded US$7.5 trillion per day in 2022. They showed that even a marginal tax of five basis points (0.05 per cent) would yield US$900 billion annually in revenue. Even if this led to a 30 per cent decline in transactions, more than US$600 billion annually could be raised. However, poor countries have limited leverage to advocate for IFTTs. This means that collective action on the part of developing countries to advocate for IFTTs and develop proposals for tax sharing is required.

There are numerous benefits of IFTTs in addition to their revenue-generating potential. The speculative character of financial transactions creates several macro-level problems that narrow fiscal space. First, such transactions tend to be focused on short-term gains rather than long-term productive investment. Second, speculative activity has harmful destabilizing effects on the real economy, contributing to volatility, financial crisis and, as a result, crises in the real economy in terms of lost output, unemployment and economic insecurity that weigh most heavily on households with low incomes and few assets—notably, women.[10]

A second channel by which trading in currency and financial instruments produces social costs is the higher level of foreign exchange reserves which countries have been forced to hold to insure themselves against speculative attacks on their currency. According to Rodrik (2006), the opportunity cost of those reserves is roughly 1 per cent of GDP. This topic is discussed in more detail in the section below on macroprudential policies.

d) Digital services taxes

The sharp increase in the size of the services sector in most countries is in part driven by the growth of digital services by large and usually oligopolistic digital firms (like Amazon, Facebook and Google) offering goods and services online. Dozens of countries have already imposed digital services taxes (DSTs), which are a tax on a digital company's gross revenues. Peru first enacted DSTs in 2007, applying a 30 per cent withholding tax on payments for digital services from non-resident businesses. Since then, another 38 countries have proposed or enacted some form of a DST, with rates ranging from 1 per cent to 30 per cent of a company's revenue. Most low-income countries, however, have not yet imposed DSTs and as a result, this is an area of potential domestic resource mobilization to create fiscal space. There is resistance to DSTs, based on the argument that digital firms are already taxed in their home countries. The countries to which digital firms sell their services, however, offer an unremunerated benefit by generating data that are used to expand sales and market share. Further, developing countries have to foot the bill for the communications infrastructure on which digital sales are based, operating as a subsidy to digital firms. There is, in other words, ample justification for imposing DSTs.

e) Property taxes

The rise of income and wealth inequality over the past 40 years makes property taxes are target for both reducing inequality and generating resources for investment in gender equality. Property taxes in developing countries are very low, on average generating revenues that are less than 1 per cent of GDP. In many African countries, they contribute far less than 0.5 per cent of GDP (Ali et al. 2017). Property taxes may be regressive if, for example, two individuals in the same tax jurisdiction live in properties with the same property values but have different incomes. But property values tend to vary by the wealth status of the property owner and thus the tax has progressive features. Property taxes can be made even more progressive by establishing a floor below which homeowners are exempt from the tax or for which tax rates are income sensitive.

There are numerous benefits to relying on property taxes to expand fiscal space. Property is immobile and thus this tax is regarded as a stable and predictable revenue source. Property taxes are usually imposed by local rather than national authorities. This might lead to regional inequality if some towns and cities have larger property bases. Mechanisms can be instituted, however, to pool local tax revenues and redistribute them in an equitable way across municipalities.[11] Property taxes have the added benefit of discouraging the wealthy from investing in second and third homes, driving up housing prices and contributing to shelter poverty and homelessness for low-income groups.

3.2. Monetary policies

Central banks can expand fiscal space by using innovative tools beyond managing interest rates. Indeed, the current approach to monetary policy which emphasizes the goal of low inflation in many countries has the effect of squeezing fiscal space.[12] Why is this so? Central banks rely on raising interest rates to keep inflation low under the assumption that inflation is a demand-side problem. With higher interest rates, borrowing costs rise, which reduces lending and thus investment and consumption spending. The result is a decline in employment and GDP growth, with the effect of reducing tax revenues and creating greater demand for social safety net programmes. Together, these effects result in reduced fiscal space.

There are several reasons why this approach is particularly badly suited to addressing inflation. For many developing countries, inflationary pressures are strongly linked to supply-side problems of low productivity related to widespread health problems, poor transportation networks and exchange rate pass-through effects on imported necessities such as food and, more generally, constrained food supplies (Heintz and Ndikumana 2011). Even in rich countries, inflationary pressures are often due to supply-side factors such as energy and food price shocks and oligopolistic market structures.[13] Under those conditions, raising interest rates during inflationary periods does not address the root causes of the problem —except by engineering an economic slowdown at a significant human cost. As can be surmised, when inflationary pressures come from the supply side, they might be more efficiently targeted with appropriate public investment rather than contractionary monetary policy. In those cases, targeting physical infrastructure investment that "crowds in" private sector investment and social infrastructure investment in the care economy that improves human capacity promotes productivity growth, lowering unit labour costs and thus inflation.

This does not mean that central banks should entirely abandon efforts to address inflation. But with public investment focused on addressing the root causes of inflationary pressures, central banks would be able to adopt an alternative policy framework that emphasizes an inclusive macroeconomic policy. They would do this by identifying "real" targets that affect social welfare rather than monetary targets, determined by identifying the key social and economic problems to be addressed by policy—such as gender equality in employment and unpaid care burdens (Epstein 2007). Those real targets would be identified on a country-by-country basis, established in response to the specific conditions and institutional structure in a country. Two examples of monetary policies to expand fiscal space are loan guarantees and asset-backed reserve requirements.

3.2.1. Loan guarantees

An example of a policy for reaching employment targets would be for governments to guarantee a certain percentage of loans made by commercial banks to priority sectors or groups. The loan guarantees serve to reduce private banks' risk exposure and lower the cost of lending to borrowers (Epstein 2009). Loan guarantees would be especially beneficial for women borrowers in countries where they have limited property rights, restricting their ability to provide collateral to secure a loan. In agricultural economies where women are subsistence farmers, small-scale agriculture is an obvious target for lending. Priority might also be given to small- and medium-sized enterprises (SMEs) that are labour-intensive and disproportionately employ women. Credit could also be directed to large-scale businesses that can demonstrate their ability to promote significant increases in employment relative to their total spending. Regardless of whether the immediate beneficiaries are women or the labour force as a whole, higher rates

of employment contribute to higher incomes, lower demands on social safety nets and greater tax revenues, expanding fiscal space. Another related strategy for governments, via central banks, is to limit the percentage of bank portfolios invested in non-priority sectors such as real estate and securities trading. This would have the twin effect of limiting the destabilizing effect of lending in these two areas and freeing up savings to be invested in priority sectors (Epstein and Grabel 2007).

3.2.2. Asset-backed reserve requirements

To promote gender equality, central banks could also use asset-based reserve requirements (ABRRs), incentivizing private banks to channel lending to priority groups and strategic sectors of the economy. ABRRs can be especially useful when fiscal policy is limited by budget constraints. ABRRs require financial firms to hold varying amounts of reserves against different classes of assets (e.g. loan portfolios) (Palley 2007). ABRRs could be designed to incentivize commercial banks to allocate a portion of their lending to priority groups (or sectors) in return for being obliged to hold a lower amount of required reserves on assets that contribute to identified development goals, an idea proposed by Pollin et al. (2006). This policy tool would thus incentivize but not require banks to lend to priority areas. Private banks would still be responsible for determining the creditworthiness of borrowers and thus retain a great deal of autonomy in lending practices. Moreover, the central bank would continue to be responsible for short-term interest rate management, but its relative focus would shift to long-term promotion of productive investment, financial stabilization and social goals like gender equality.

This alternative policy measure is neither radical nor new. Several high-performing developing economies have directed credit to target sectors to promote structural change and economic development. Among these, the Republic of Korea stands out. Having nationalized banks in the 1960s, the government allocated subsidized credit to large firms that in return were required to meet investment and export goals. This reciprocal control mechanism disciplined capital, incentivizing firms to align their profit goals with the country's broader development goals (Amsden 1992).

The strength of alternative monetary policies such as those previously described lies in their employment and income-generation possibilities and ability to target key sectors and groups to overcome asset inequality. To be effective and well targeted, monetary policies should be coordinated with public investment goals. To the extent that public investment reduces inflationary pressures, central banks can afford to lower interest rates, in turn making it less costly for governments to finance public investment.

It is worth emphasizing more explicitly that what I am suggesting here is a partial role reversal between fiscal and monetary policy in developing countries that face problems of poor infrastructure, volatility of agricultural output and prices, and a population that is poor and in ill health. Those problems, which can raise costs of production and thus contribute to inflation, can be remedied by the judicious use of fiscal policy that emphasizes the goal of reducing constraints in long-run supply through public investment. Lowering inflationary pressures through public investment leaves more space for expansionary monetary policy and targeted credit allocation that can contribute to achieving gender equality goals.

3.3. Macroprudential policies

3.3.1. Capital controls

Macroprudential policies and regulations aim to increase the financial system's resilience to shocks. Systemic risk has increased substantially with the liberalization of financial flows, beginning with relaxation of controls on cross-border currency movements in the late 1960s, moving then to "floating" or flexible exchange rates in the 1970s. As an indication of the extent of financial liberalization and the ensuing speculative nature of financial flows, global foreign exchange transactions exceeded US$7.5 trillion per day in 2022, only a minute portion of which is used for merchandise trade (Kumar and Gallagher 2023).

It is useful to trace 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 their impact on investment. 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. As a result, when financial flows are 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 achieve this, many central banks adopted inflation-targeting policies, reducing their flexibility to use monetary policy to ensure adequate levels of employment. Moreover, the higher interest rates that ensue from low target inflation rates stymie employment and GDP growth, squeezing public sector budgets. Financial liberalization thus contributes to a global deflation and a fiscal squeeze.

As an alternative, capital management techniques can and have been adopted to control destabilizing flows of "hot money" and maintain more stable, competitive exchange rates that expand the space for the adoption of expansionary monetary policies. The benefits include a reduction of macroeconomic volatility and exchange rate volatility (and thus economic insecurity). Especially relevant for creating fiscal space, capital controls can free up reserves held by governments to insure against a financial crisis or external shocks. Although capital management techniques have faced past objections from the IMF, there has been a shift, albeit incomplete and begrudging, on the acceptability of capital controls (IMF 2022).

Regarding reserves, international financial institutions such as the IMF have required countries to maintain larger foreign exchange reserves to hedge against crises from financial panics, bankruptcies and competitive devaluations. Borrowing countries are required to place a significant portion of foreign aid into foreign exchange reserve accounts or use these funds to reduce debt. Gallagher and Shrestha (2012) estimated that reserves held by developing countries rose from 5 per cent of GDP in 1990 to 31 per cent in 2009. The optimal amount of foreign exchange reserves is considered to be 3 months of imports but with deregulation of capital flows, by 2009 reserves jumped to 16 months of imports. The cost of holding such large reserves is the interest that could be earned from investing funds in higher-yielding financial assets and the potential for otherwise foregone public investment to "crowd in" private invesments and reduce inequality (Elson and Warneke, 2011).

Epstein et al. (2004) and Gallagher (2011) reviewed various experiences with capital management techniques.[14] Tools differ across countries and include reserve requirements on inflows of capital as well as diagnostic tools such as early warning systems that trigger the regulation of capital flows. There is no one-size-fits-all toolkit to manage capital flows and the approach to the use of such tools has often been dynamic—that is, countries have flexibly adapted these tools to changes in the internal and external environment.

Rather than an extensive review of these tools, the points I make here are twofold. First, there is increased policy space to adopt macroprudential policies in the wake of recent global economic crises, as evidenced by the increased openness of the IMF to such controls. The second point is that macroprudential policies and, in particular, capital controls that reduce economic volatility are gendered in the sense they are a tool to promote gender equality. Women are disproportionately harmed by financial crises because women are more likely to lose their jobs in ensuing economic Downturns. Women carry the disproportionate load of care work in households which struggle financially from higher unemployment and limits on central government resources to fund social spending. Moreover, the government revenue sacrificed by holding reserves can be recuperated with controls, with a beneficial effect on fiscal space.

Countries may unilaterally adopt capital controls. They do not need the approval of any international organizations to do so. That said, countries with IMF agreements may face conditionalities that restrict their ability to impose such controls. There is, however, growing agreement even at the IMF that capital controls may be warranted. Capital controls have been effectively used in developing countries to disincentivize speculative flows. There is no one-size-fits-all toolkit to manage capital flows, and countries have flexibly adapted these tools to changes in the internal and external environment. As an example of capital controls, Malaysia instituted

controls during the Asian Financial Crisis of 1998 and, as a result, recovered more quickly than other Asian economies that did not seek to regulate flows. To do this, Malaysia limited foreign borrowing; restricted non-resident access to the Malaysian currency, the ringgit; and imposed a 12-month repatriation waiting period on non-resident capital outflows.

Chile established speed bumps in the 1990s to reduce the volatility of capital flows to encourage patient capital and to discourage speculative flows or "hot money." The main control on inflows has been an unremunerated reserve requirement (URR) on foreign loans. The URR requires anyone borrowing money from abroad to deposit a percentage of the loan in the bank in a non-interest bearing account for a full year, essentially acting as a tax on short-term and potentially speculative borrowing. Colombia has adopted similar capital control measures.

3.3.2. Influencing Public Development Banks

Development banks may be publicly or privately owned (e.g. by non-profits such as Bangladesh's Grameen Bank). Even in the latter case, governments frequently make substantial contributions to the capital of private banks. The government therefore has leverage to influence whom non-governmental development banks lend to. Governments might also make rules about the gender representation of employees in development banks to ensure diverse perspectives on lending decisions. Nationally owned public development banks can enhance lending to women by offering preferential features in products for women farmers and small- and medium-sized enterprises owners, including lower interest rates, flexible repayment terms and unsecured loans. For central banks to incentivize development banks to lend to women is not sufficient, however, as women tend to lack a credit history and collateral, as previously noted. Therefore, governments will need to also utilize loan guarantees or subsidize interest rates to targeted groups.

3.3.3. Innovative financial instruments

A variety of financial instruments under the moniker of "sustainable finance" have been created in recent years to address social and environmental problems. "Social impact bonds" and "gender bonds" are a subset of this type of financial instrument. These bonds have the explicit goal of producing verifiable positive effects on areas of social concern using agreed-on benchmarking. In principle, this type of bond has two types of return: the financial one, measured as the rate of return on the investment, and the non-financial objective of meeting the investor's goals for social change.

These bonds, which serve as a means for financial institutions to raise capital, can create fiscal space with funds directly targeted to funding gender equality projects such as physical and social infrastructure spending. For example, gender bonds have been issued by financial institutions to fund loan portfolios intended for women entrepreneurs. Gender bonds could also be issued by the public sector (national or local government and public development banks) that intend to direct the proceeds entirely toward implementing a plan for promoting gender equality. Bonds might be earmarked for investments in the care sector of the economy, for example, although there are also many possible targets of such bonds. Bonds could also be issued to improve services to victims of gender-based violence, to finance businesses that are committed to employing more women, and for lending to women-owned businesses.

4.

SUMMARY OF MACRO-LEVEL POLICY TOOLS TO ENHANCE FISCAL SPACE FOR GENDER EQUALITY

Table 1 summarizes the macro-level policies discussed here and identifies their fiscal space effects as well as whether the policy is gendered, in the sense that there is a direct financial effect on funds available to invest in gender equality. The policy is labelled indirect if the effects on women and gender equality more generally are the result or residual of the effects of the policy intervention. For example, a variety of new taxes were discussed in this section. The taxes are not in and of themselves gendered in their direct impact. Rather, they simply create additional resources for the government to invest in projects that promote gender equality.

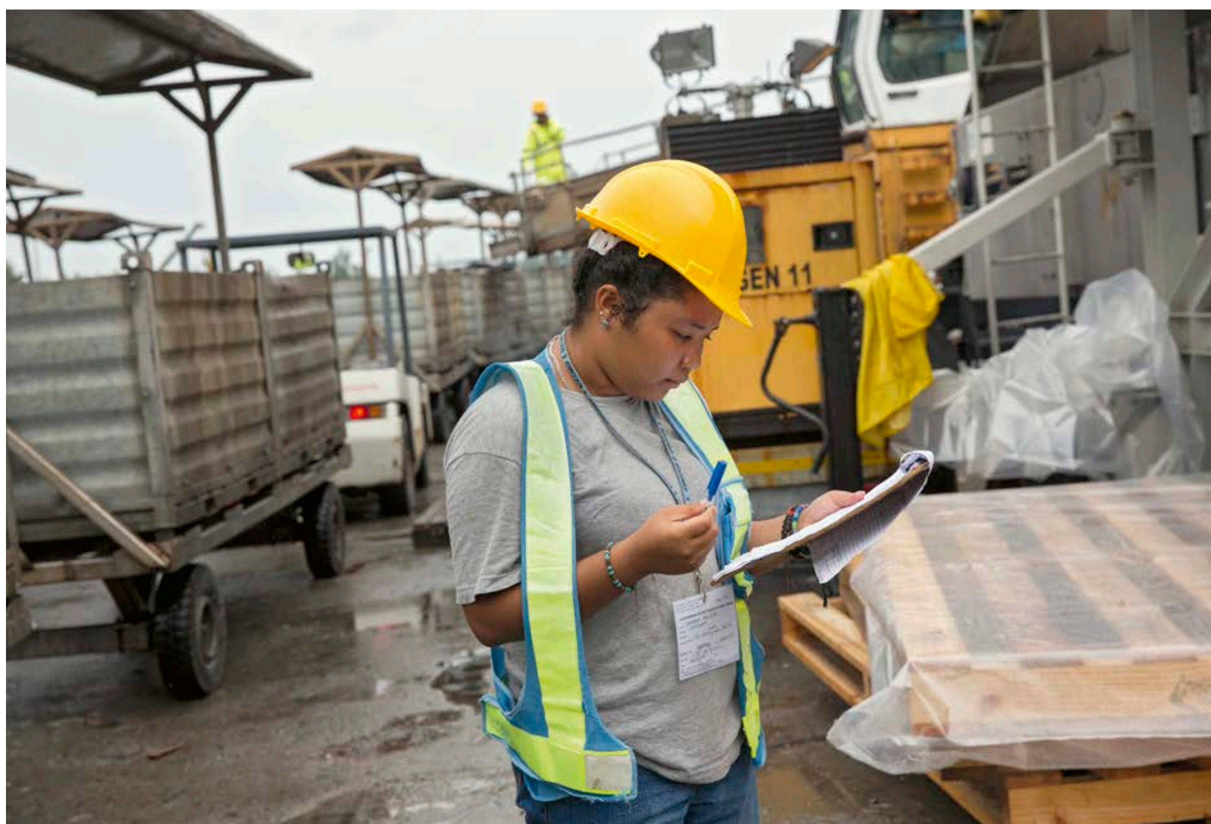

Photo: UN Women / Ryan Brown

TABLE 1

Macro-level policies for creating fiscal space

Category	Policy	Fiscal space effect	Direct or indirect gender effect
Fiscal–Government spending	Expenditure switching	Switching away from some expenditures frees up revenue for gender-equitable investments.	Indirect. Size of effect depends on areas in which expenditures are reduced.
	Physical infrastructure	Creates fiscal space by stimulating GDP growth, short and long term.	Direct if investments are in areas that reduce women's care burden. Indirect otherwise.
	Social infrastructure	Investments in the care economy reduce women's burden, stimulate productivity growth, short and long term.	Direct. Reduces women's unpaid work and generates employment opportunities for women's paid work.
	Countercyclical	Attenuates economic downturns, avoids hysteresis. Short-run debt rises, longer-run debt buoys productivity growth.	Indirect. Alleviates care burden on women during economic downturns and their disproportionate job and income losses
Fiscal–Taxation	Export and import taxes	Improves balance of payments, takes pressure off exchange rate devaluation, generates revenue and fiscal space.	Direct or indirect. The effect depends on degree of monopoly in sectors. Export taxes raised. Import taxes not likely to harm women if on luxury goods.
	Windfall taxes	Addresses market power, redistributes income, generates revenue that creates fiscal space.	Indirect.
	IFTT taxes	Slows cross-border transactions, promotes economic stability with positive effects on government budget and fiscal space.	Indirect. Women benefit from fewer economic crises that tend to harm them more than men.
	Digital taxes	Generates tax revenue to create fiscal space.	Indirect.
	Property taxes	Reduces inequality, benefits low-income households with lower housing costs, generates tax revenue for fiscal space.	Indirect. More likely to affect high-income households and thus men. Benefits low-income women in housing costs.
Monetary	Loan guarantees	Stimulates GDP growth, tax revenues, addresses development goals.	Direct if loan guarantees targeted to projects, investments that benefit women, such as SMEs, small farmers
	ABRRs	Stimulates GDP growth, tax revenues, addresses development goals.	Direct if strategic areas for lending are projects, investments that benefit women.
	Public Development Bank		Direct if lending targets women and the sectors they are typically employed in.
	Social impact and gender bonds		Direct.
Macro-prudential	Capital controls	Reduces economic volatility, reduces reserve holdings, gendering revenues to finance public investment.	Indirect. Women benefit from fewer economic crises that tend to harm them more than men. Women benefit from increased funds for investment, if targeted to gender-equalizing projects.

4.1.
How can fiscal space be directed towards investments in gender equality?

Table 1 specifies policies that could generate resources to fund projects that promote gender equality. Below, I discuss mechanisms for directing finance to key gender equality investments where there are direct benefits of such spending. Regarding the indirect benefits that can potentially contribute to gender equality by creating fiscal space (capital controls, for example), the overarching requirement is for government agencies to implement a national plan to promote gender equality, prioritizing relevant investments based on country-specific conditions.

4.1.1. Physical infrastructure spending

A starting point for assessing the types of physical infrastructure projects that will promote gender equality is to conduct a gender analysis, entailing an assessment of the gender-based economic and social roles and responsibilities of community members who would use the physical infrastructure. Evaluating time use by gender is critical at this stage, as it should guide the infrastructure project activities to be undertaken. In the poorest countries, for example, improvements in electricity and energy, water and sanitation, transportation, and information and communications technology (ICTs) have been identified as key areas for investment that reduce women's care burden and enhance their ability to engage in paid work.

As an example of the gendered impact of infrastructure investments, Fontana and Natali (2008) simulated the benefits of targeted physical infrastructure investments that reduce time spent on unpaid care activities for gender equality. They demonstrated that such targetted investments, by reducing the time spent on fetching water, fuel and other unpaid household maintenance activities, reduce the care burden and as a result, raise the earnings potential of both women and men. Women benefit disproportionately from such investments. According to the simulations, the time released from unpaid work would raise women's income by 17.7 per cent relative to the economy-wide average, and men's by 1.6 per cent annually.

Small and Rodgers (2023) identified numerous examples of physical infrastructure projects and their gender effects. A massive rollout of rural electrification in South Africa in 2001, for instance, significantly increased women's employment within five years by releasing women from home production and enabling the growth of micro-enterprises. Similar results of electrification have been found India and Nicaragua. In some cases, electrification has also been found to contribute to increases in women's education (Samad and Zhang 2019), with accompanying effects on GDP growth as identified by Klasen and Lamanna (2009).

Similarly, piped water and access to toilets reduce the time women, who are primarily responsible for household water provision, spend fetching water with positive effects on their access to paid employment. Small and Rodgers (2023) discussed the effects of such projects in India and Zambia. Regarding transportation, women tend to travel more frequently with dependants, such that lack of access to safe and reliable transportation has a greater effect on their time and employment possibility than for men. Safety is also a concern. Evidence from India, Nicaragua and Peru shows the positive effects of transportation investments on women's labour force participation (Small and Rodgers 2023).

The gendered benefits of investment in physical infrastructure would be further enhanced were women to gain access to public works jobs created through physical infrastructure spending. These jobs have tended to be male-dominated, but there are numerous examples of countries that have designed infrastructure projects to facilitate women's employment (Tanzarn and Gutierrez 2014). The mechanism for ensuring women have access to employment has been to specify minimum quotas for women's share of jobs. The provision of childcare and separate toilets also supports women's access to these jobs.

4.1.2. Social infrastructure investment

The impact of social infrastructure investments on gender equality—both in terms of reducing unpaid labour and increasing job opportunities—has now been widely documented and noted earlier in this paper.

Under social infrastructure spending are included those expenditures that promote the development of human capacities—education, healthcare and social care services such as childcare and eldercare. Because women perform the bulk of this work, paid and unpaid, it is not difficult to use time-use data to target such projects in a way that reduces gender inequality. The general strategy is to determine the type and extent of gender-differentiated care responsibilities in an economy and to identify investments in those areas that take up the most of women's unpaid labour time.

4.1.3. Public Development Banks and central bank lending to commercial banks

Nationally owned development banks should develop institutional mandates that define their gender equality goals, including funding targets and levels. To be successful, Public Development Banks would benefit from a balanced representation of women at all functional levels, including in senior roles. Accountability mechanisms are also required, in order to include annual monitoring of the PDB's progress in meeting its lending goals for gender equality. It is also necessary to train staff to adopt a gender lens for investment analysis and decision-making. A survey of 54 PDBs showed that many are already offering preferential features in products for women micro, small and medium-sized enterprises, including lower interest rates, flexible repayment terms and unsecured loans (Andrade et al. 2023). Targeting lending to women farmers, women-owned businesses and SMEs, however, is not sufficient because women have less access to collateral and a limited credit history. To address this, central banks can use asset-based reserve requirements to incentivize lending by private banks to projects that promote gender equality, supplemented, if necessary, with loan guarantees.

5.

CONCLUSION

In this background paper, I have offered a way to reconceptualize fiscal space, expanding it from a purely financial analysis related to borrowing and debt sustainability to a much broader set of mechanisms for mobilizing resources to fund gender equality investments. A rich body of research has assessed the positive effect of these investments on society-wide well-being and, in particular, GDP growth. This signifies the potential for gender-equalizing investments to be self-funding in the sense that they generate a stream of revenue over the longer run, due to increased tax revenues from the creation of well-paid jobs and higher levels of GDP.

Given the investment quality of spending on gender equality, policymakers should refrain from viewing such expenditures as merely social spending that is discretionary. Further, fiscal space should be measured over the medium- to long-term (5 to 10 years) in order to capture the investment quality of gender-equalizing spending. Although some measures of fiscal space currently in use are already intertemporal, thus capturing the multiplier effects of fiscal spending on job and GDP growth, none to my knowledge captures the quantitative effects of *gender investment*s on these variables. As noted, there are also ways to promote gender equality that do not require spending. As an example, macro-prudential policies that reduce the risk of financial and economic crises, felt more harshly by women, can contribute to greater gender equality.

Briefly summarizing the policy levers identified in this background paper, in addition to government borrowing and spending, fiscal space can be created through expenditure switching, obviating the need for additional borrowing. It can also be created through increasing tax revenues. There is scope for increasing these revenues even in the poorest countries. I have outlined here several possible options, including windfall profit taxes, digital services taxes, property taxes, export and import taxes, and IFTTs.

Because women disproportionately experience economic downturns and instability—due to their limited financial assets, the types of jobs they hold, and their care responsibilities—policies and regulations that smooth economic cycles promote gender equality in two ways. Avoiding or attenuating economic downturns reduces demand for social safety net spending. It also shields women from the negative effects of crises. Countercyclical policies help smooth economies from shocks and cyclical downturns. They also help to avoid hysteresis, the long-run negative effects of sustained economic downturns on human capacities and productivity. The poorest countries are not able to finance countercyclical policies. But at least a portion of economic volatility can be addressed by regulatory changes, and in particular, capital controls to slow the movement of money across borders that can lead to exchange rate pressures that destabilize economies. Further, governments may use a portion of IFTTs to form a rainy-day fund to finance countercyclical policies. These policies do not have direct gender effects insofar as spending may not necessarily be targeted to women's empowerment and well-being. But the indirect effects are likely to be substantial, due to the disproportionate burden of economic crises women carry.

In recent decades, monetary policy has not been widely considered a mechanism for creating fiscal space. Rather, the dominant view has been that a central bank's sole goal should be to manage inflation. But in setting low inflation targets, central banks constrain fiscal space due to the contractionary effects of monetary policy on jobs, GDP and thus tax revenues. It is time to consider alternative central bank tools, many of which were utilized in the pre-globalization period by developed economies. Indeed, Epstein (2005) has argued that historically, central banks have played a much more expansive role in promoting economic development and thus the recommendations here are not a radical departure from past practice.

An example is credit allocation policies that reflect national development goals such as gender equality. Central banks can adopt reserve requirements which are asset-based to incentivize lending to strategic activities and sectors such as women famers and SMEs where women tend to be overrepresented as workers. Central banks could also support lending to public development banks with gender equality goals and provide loan guarantees on commercial bank lending to women who lack collateral or a credit history. Moreover, the greater focus on and commitment to gender equality among institutions, corporations and governments has created the context for innovative financial instruments like gender bonds and, more broadly, social impact bonds.

Some of the macroeconomic policies identified in this paper already are benefiting from greater support from key institutions such as the World Bank and International Monetary Fund which have begun to focus attention on the benefits of infrastructure investment, albeit with the narrow lens of increasing women's labour force participation. Some of the mechanisms for promoting fiscal space—at the same time as resource mobilization —may appear radical, but in most cases, they have already been employed by rich countries prior to the neoliberal era, and by some of the most rapidly growing developing economies since 1960. Although low-income countries may have limited borrowing capacity to fund gender equality investments, several of the proposals provided here are accessible to these countries.

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ENDNOTES

1. Organizations like the IMF that favour private over public sector economic activity use two additional measures of fiscal space: 1) government subsidies to GDP (whereby cuts to subsidies free up public sector funds) and 2) the value of public asset holdings (as a measure of assets that can be sold to the private sector).
2. Some projection exercises evaluate a country's fiscal position over the long term, but these are again typically focused on financial measures and do not account for the growth-enhancing effects of certain types of public sector spending (Heller 2007). More recently, the IMF has shifted emphasis to a dynamic analysis of debt sustainability, capturing the impact on the public sector budget of macroeconomic growth, although not necessarily growth induced by the specific government expenditures (Baum et al. 2017).
3. The World Bank, for example, uses this definition to distinguish it from infrastructure investments that "crowd in" private investment, that is, that support the productive as compared to reproductive economy.
4. To be more precise, social infrastructure investment refers to public expenditures on health, education and care. The evidence of such expenditures is to be found embodied in people, but the impact of those expenditures extends beyond individual recipients to society at large, due to their public goods quality.
5. Himmelweit (2016) cautions that a narrow focus on the benefits of social infrastructure investment for productivity growth can be problematic, insofar as it is harder to make an investment argument for expenditures on care of some members of society, such as those with disabilities and the elderly. Yet even in these two cases, public spending to support care of this kind reduces women's unpaid labour burden, freeing up time to spend in paid labour.
6. See Bargawi and Cozzi (2017) and De Henau and Himmelweit (2016) for simulations for Europe and the United Kingdom.
7. A multiplier of 1 indicates that for every 1 unit increase in social protection spending, GDP rises 1 unit, that is proportionately. A multiplier less than 1 reflects a positive impact on growth of GDP, but at a rate that is less than the initial injection of social protection spending.
8. The 10-year output multiplier is based on a permanent implementation of the social protection policy, in this case, 1 per cent of GDP.
9. These are statutory rates or the base rate applied on all profits. Tax adjustments may be applied such that the effective tax rate differs from (and is lower than) the statutory rate. Taking the United States as an example, although the statutory tax rate in 2010 was 39.1 per cent, the effective tax rate after deductions was 24.1 per cent (KPMG 2010).
10. These include the Mexican crisis in 1994, the Asian financial crisis of 1997–98, with contagion effects in Russia (1998) and Brazil (1999) as well as crises in Turkey (2000) and Argentina (2001).
11. As an example, in the US state of Vermont, Act 60 adopted in 1995 requires the pooling of the education portion of local property tax revenues at the state level, which then redistributes these revenues to municipalities to achieve equalized per pupil spending across all municipalities. The tax is income-sensitive such that households with income below a threshold are exempt from the tax.
12. The view that central banks must adhere to low inflation targets as a precondition for macroeconomic stability and growth is not supported by the evidence. Several studies find that annual inflation rates under 20 per cent are not harmful to a country's growth (Bruno 1995; Pollin and Zhu 2006). During the Republic of Korea's early years of export-led growth, inflation rates routinely reached 15 per cent, and yet that country recorded some of the highest growth rates in modern times.
13. The recent bout of US inflation is primarily attributable to an increase in corporate profits, reflecting their market power to set prices in the context of increased economic concentration (Bivens and Banerjee 2023; Bräuning et al. 2022).
14. IFTTs discussed in the previous section on tax policy can be categorized as capital management techniques.

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