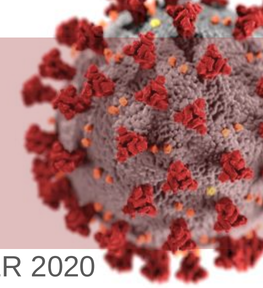
COVID-19

# RECOVERING RIGHTS



SEPTEMBER 2020

## TOPIC NINE | MONETARY POLICY TO REALIZE RIGHTS

***Main Takeaways***

- *In response to COVID-19 and its economic fallout, central banks have deployed "unconventional" monetary policy tools. Some countries have more leeway to do so than others, given their position in the global economy.*
- *Monetary policy measures can provide additional resources to governments, lower the cost of borrowing, and manage financial integration in a more equitable manner.*
- *Monetary policy decisions have distributional consequences that will affect social inequalities and people's rights.*
- *Central banks should use the tools at their disposal to provide substantial resources to governments and to the businesses and households most at risk from the economic fallout of COVID-19.*

### Why is this topic important in the context of COVID-19?

Recovering from COVID-19 will require extraordinary measures to tackle the public health needs of the pandemic and address the devastating consequences of its economic fallout. Conventional mechanisms governments use to stimulate the economy will not be enough. Monetary policy should be deployed to help secure a just recovery.

Monetary policy attempts to control the money supply in an economy (i.e., how much money there is to lend and spend) and regulates financial systems. Tools include setting interest rates; lending to government, commercial banks and other financial institutions; and regulating how a country is integrated in the global financial system. Monetary policy can be broadly classified as either expansionary (expanding economic activity) or contractionary (reducing it).

Most often, monetary policy objectives are set by governments and implemented by a country's central bank, which has operational independence. Despite their independence, as public institutions established by law, central banks are responsible for the human rights impacts of their decisions. In recent decades the trend in monetary policy has been a shift from aiming to achieve "full employment" to aiming to achieve "price stability" (limiting inflation).

In the COVID-19 context, central banks have deployed "unconventional" monetary policy tools—unprecedented in their variety and size. This includes injecting vast sums of money into the economy ("printing" or "issuing" new money). How these tools are designed (including the priority central banks give to inflation targets over employment levels) has distributional consequences that affect social inequalities and people's rights. Demands on women's unpaid labor increase when policies squeeze households' financial resources, through raising interest rates, for example.

### What is being proposed?

A number of monetary policy measures have been proposed and enacted that directly and indirectly provide additional resources to governments and the private sector; lower the cost of borrowing; and regulate global financial integration more equitably.

Measures that pump additional resources into the economy include:

**Providing funds to governments:** Central banks can either lend funds to their governments or provide them with funds that do not need to be repaid. Such funds can be used for socially and environmentally desirable investments. The extent to which this is possible is context-specific and limited by a range of market and institutional factors.

**Channeling credit to the private sector:** Central banks can buy existing debt or channel new credit to businesses at low rates, to stimulate investment in particular sectors or support businesses to pay their workers during lockdown periods. Central banks can provide credit to development banks. These banks are mandated to lend in ways that achieve social, not only commercial, objectives—for example, favoring lending for low-carbon investments.

Measures that lower borrowing costs include:

**Lowering interest rates:** Interest rates set by the central bank influence the cost of borrowing throughout the economy. Lower interest rates can stimulate greater investment by private actors. This helps create jobs and makes loans more affordable for households. That said, the extent to which countries, particularly in the Global South, can set very low or negative interest rates depends on the financial market pressures they face.

**Buying government bonds:** Central banks can buy government bonds (i.e., debt) directly or from other creditors. This creates more demand for government debt and so helps lower their borrowing costs. This tool, as well as the buying of corporate bonds and other assets, is called quantitative easing or "QE."

Measures that regulate engagement with the global economy include:

**Managing capital flows:** Managing how money flows in and out of a country, as well as how currencies are traded, helps guard against financial instability, including asset bubbles and volatile exchange rates. It also directs credit away from speculative activity. This could help prevent price spikes for food and other daily necessities.

**International cooperation:** As the IMF has noted, "synchronized actions across countries increase the power of monetary policy." It is important to consider how countries in the Global South benefit from expansionary policy in the Global North. Rich countries, particularly the US, can support recovery globally, e.g., by ensuring access to US dollars.

Monetary policy can directly expand or shrink a government's fiscal envelope, determining its available resources. It can spur or hinder economic activity, and impact which sectors and which people benefit from it. Unless these tools are used for socially transformative ends, they run the risk of supporting the accumulation of assets by those who are already wealthy. Accordingly, the types of economic activity that monetary policy stimulates must be rights enhancing. For example, governments should invest money created through quantitative easing in bolstering essential services; expanding social protection schemes; creating decent jobs; and promoting a green recovery.

## How do these proposals advance human rights?

Most of the world's governments have signed up to binding treaties that commit them to respect, protect, and fulfill people's human rights, including social and economic rights. Fulfilling rights means taking concrete steps using the *maximum of their available resources* (see Topic 1). It also requires directing the efforts of other actors—including the private sector—towards the fulfillment of rights.

National courts and United Nations experts tasked with interpreting these treaties have focused primarily on the ways governments raise and spend resources (i.e., their fiscal policy). They've said less about how governments' human rights obligations apply to their role in the broader management of the economy, including through monetary policy.

But there is a strong argument that standards set out in these areas apply to monetary policy as well. Human rights law directs governments to ensure that the infrastructure, goods and services needed to guarantee people's rights are adequately or sufficiently financed. Financing must be secured in a way that is fair, progressive or socially equitable. When it comes to allocating resources, governments must prioritize disadvantaged groups. The processes through which policy decisions are made must be transparent (relevant information is public); participatory (people can play a meaningful role in shaping policy); and accountable (policymakers justify their decisions and there is redress when they don't meet obligations).

These standards provide a binding framework that must guide the way the proposals outlined above are designed and implemented. In line with this framework, governments and central banks should use the tools at their disposal to maximize the resources available to invest in recovery measures that realize rights and reduce disparities. Businesses and households most at risk from the economic fallout of COVID-19 must also be prioritized. This includes preferred (subsidized) loan rates for environmentally sustainable sectors; requiring commercial banks to allocate a percentage of their loan portfolio to affected industries and areas; and making access to corporate bailouts and other public funds conditional on meeting labor protections and other human rights standards (see Topic 5).

The obligation to cooperate internationally to realize human rights (see Topic 2) is also crucial. The mobility of global capital, for example, has created cross-border competition—inducing countries to choose policies that favor financial markets over the "real" economy. Strengthening global economic governance is essential to counter this dynamic.

**Critical Questions**

- Is your central bank's mandate adequate to adopt a rights-based response to the pandemic?
- Has monetary policy been aimed to revive economic activity or just to control inflation?
- Does your central bank consider the distributional impact of its decisions? If so, how?
- Is your government supporting financial cooperation at the international level in response to Covid-19?