Monetary Policy and Principles for Human Rights in Fiscal Policy

INITATIVE FOR PRINCIPLES FOR
HUMAN RIGHTS
IN FISCAL POLICY

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This document was prepared by the Initiative for Human Rights Principles in Tax Policy with the support of its Committee of Experts.

Monetary policy consists of measures employed by a government aimed at managing currency and interest rates in a country[1]. Normally, monetary policy has the main objective of promoting price stability—although it may also pursue several secondary objectives, such as promoting employment— and is led by the Central Bank of a country or group of countries[2].

Although monetary policy plays a crucial role in the mobilization of the resources needed for different public purposes, it is mostly considered a technical issue and therefore involves limited political debates and is implemented with little social involvement[3]. However, especially in the current context of widespread inflation in different regions of the world[4], monetary policy has garnered increasing interest from a variety of stakeholders. For example, the relationship between monetary policy and climate change, and more generally with human rights, is now being debated in academia[5].

Although the impacts of monetary policy on human rights may be seen as more indirect than those of other macroeconomic policies, such as fiscal policy, they are no less important. As a starting point, monetary policy impacts people's available income and, consequently, their access to rights[6]. These impacts are especially clear in the case of the right to work, as it is affected by the rise or fall of interest rates, the flagship measure taken by Central Banks (with interest rates' reductions facilitating access to credit and therefore production, employment, and income)[7]. More generally, monetary policy is decisive for governments' budgets and involves decisions with high political content and social implications. This was evidenced by the important role that monetary policy played in the response to the COVID-19 pandemic[8] (and it had already been relevant in the response to the 2008 crisis). Furthermore, Central banks have other functions besides managing monetary policy, such as awarding scholarships and other cultural, training, and educational actions, which are also relevant to guarantee human rights. However, monetary policy continues to be often neglected in public debates.

The indirect but significant link between monetary policy and human rights can be illustrated by two

1. ROSSI e GERBASE. "Guia Ilustrado de Inflação, Política Monetária e Direitos Humanos". https://www.inesc.org.br/guiailustrado/. In the case of the European Union, monetary is not defined at national but at regional level.

2. Idem.

3. ANGELO. "Advocacy on Monetary Policies for Economic Justice - A handbook for Civil Society." https://www.eurodad.org/advocacy_on_monetary_policies_for_economic_justice_a_handbook_for_civil_society. Handbook. / ROSSI e GERBASE. "Guia Ilustrado de Inflação, Política Monetária e Direitos Humanos". https://www.inesc.org.br/guiailustrado/.

4. See Financial Times, "Global inflation tracker: see how your country compares on rising prices." May 2022,available at https://www.ft.com/content/088d3368-bb8b-4ff3-9df7-a7680d4d81b2

5. See, for example, Arınç Onat Kılıç, "Secondary objectives of the European Central Bank and economic growth: A human rights perspective, Leiden Journal of International Law (2022), 35, 569–59. doi:10.1017/S0922156522000097; D. D. Bradlow, 'Why Central Banks Need to Take Human Rights More Seriously?', (2019) SSRN Electronic Journal, Julio de 2019, available at papers.ssrn.com/sol3/papers.cfm?abstract_id=3417735; D. D. Bradlow and S.; K. Park, 'A Global Leviathan Emerges: The Federal Reserve, COVID-19, and International Law', (2020) 114(9) American Journal of International Law 657–65.

6. ROSSI e GERBASE. "Guia Ilustrado de Inflação, Política Monetária e Direitos Humanos". https://www.inesc.org.br/guiailustrado/.

7. Idem (arguing that "A reduction in the interest rate tends to generate income and employment, since with easier access to credit companies start to produce more, whereas an increase in the interest rate tends to cause the opposite effect. Thus, when it generates unemployment or discourages the creation of new jobs, monetary policy impacts the right to work.")

8. Advocacy on Monetary Policies for Economic Justice, A HANDBOOK FOR CIVIL SOCIETY.

phenomena and instruments typically related to monetary policy: inflation and credit lending. Under certain circumstances, inflation can generate a very real risk of compromising the right to an adequate standard of living, creating barriers to access food, housing, and basic services. Meanwhile, access to credit determines people's ability to realize human rights when the provision of key services such as housing is commodified (with housing being seen only as assets instead of social goods, with ever increasing prices) and largely available through private providers, which people are often unable to afford[9]. Additionally, and contrary to the principles of equality and non-discrimination recognized by the human rights framework, both access to credit and credit conditions are often discriminatory for certain groups[10].

Furthermore, anti-inflationary and credit policies can affect employment and income, interfering with the right to work and other human rights. Indeed, addressing inflation by incentivizing economic slowdown and unemployment can be detrimental to human rights. In consequence, other available options should be considered to address inflation, responding to the specific inflationary phenomenon of each country. For example, inflation caused by devaluation can be addressed with policies to reduce exchange rate speculation, accumulate international reserves, and reduce external dependence.

For all the above reasons, Central Banks should not remain indifferent to the risks their decisions pose for human rights. Nor should other bodies with an impact on the "global monetary agenda," such as the International Monetary Fund[11].

In this context, the Initiative for the Principles for Human Rights in Fiscal Policy highlights the importance of analyzing the relationship between monetary policy and human rights. With this aim, it advances the following basic principles to connect human rights and fiscal policy, in line with the Principles for Human Rights in Fiscal Policy:

1. Mandates of Central Banks. Since Central Banks are official public entities, they must act in accordance with all the laws and constitutional provisions in force within a State, including its commitments regarding human rights[12]. Therefore, States may consider including the promotion of human rights as a secondary objective of Central Banks' mandates[13]. Alternatively, they can consider including other purposes aligned with human rights, such as promoting sustainable development or financial inclusion.

2. Impact evaluations. Central banks should conduct due diligence and human rights impact assessments for some of their decisions, mainly those related to raising interest rates[14]. Although conducting these assessments can be challenging for Central Banks, due to the speed and discretion with which they often operate, it can also be beneficial. Benefits include assessing the adequacy of their procedures (which should be reviewed periodically) and getting a better and more detailed understanding of how their policies affect different groups, and their actual costs

9. ROSSI e GERBASE. "Guia Ilustrado de Inflação, Política Monetária e Direitos Humanos". https://www.inesc.org.br/guiailustrado/.

10. ROSSI e GERBASE. "Guia Ilustrado de Inflação, Política Monetária e Direitos Humanos". https://www.inesc.org.br/guiailustrado/.

11. Arınç Onat Kılıç, "Secondary objectives of the European Central Bank and economic growth: A human rights perspective, Leiden Journal of International Law (2022), 35, 569–59 doi:10.1017/S0922156522000097.

12. Daniel Bradlow, "Why Central Banks Need to Take Human Rights More Seriously?".

13. See, for example, the objectives of the Central Bank of Ecuador. D. Arias, "Financial inclusion policy in Ecuador: Role of the Central Bank towards economic growth and job creation", ILO Working Paper, 29 April 2015 <https://www.ilo.org/employment/Whatwedo/Publications/working-papers/WCMS_364613/lang--en/index.htm>; and the objectives that include sustainability of other 12 central banks, S. Dikau and U. Volz, "Central bank mandates, sustainability objectives and the promotion of green finance" Ecological Economics (2021) Vol. 184 <https://www.sciencedirect.com/science/article/pii/S092180092100080X>.

14. Principles 3 and 7 of the Principles of Human Rights in Fiscal Policy, and their respective guidelines.

and benefits, based on disaggregated information[15].

3. Fairness of credit policy. Central banks should promote a fair and equitable credit system, recognizing potential discrimination in access to credit and its conditions, for example based on race or sex. To this end, it would be important to mandate Central banks to promote financial inclusion, and to develop credit guidelines that include considerations relevant to human rights. These suggestions are without prejudice to stressing the importance of universal and quality public services that do not push people to go into debt to meet their vital needs in the first place.

4. Addressing inflation. States should recognize that inflation is a multi-causal phenomenon, and therefore use a variety of instruments (besides managing interest rates) to address it[16]. Similarly, they should recognize that inflation has different causes and consequences in different countries and may therefore require different responses given the different role that different currencies play at the global level.

When addressing inflation, States should prioritize efforts to control prices that have the greatest impact on structurally disadvantaged individuals and groups. This requires measuring inflation in a way that accurately represents its impact on households with different income levels[17], and explicitly recognizing that inflation does not affect all individuals and groups equally[18]. Core social policies needed to fulfill human rights, such minimum wages and income transfers, must be corrected according to inflation in the annual budgetary process, to ensure non-regression in those policies.

5. Regressive Measures. Given their potential impact on human rights—especially on the right to work—, recessive monetary adjustments and excessive interest rate increases should be avoided when managing monetary policy, unless fully justified and necessary[19]. The requirements that the human rights framework sets for assessment of the legality of any regressive measures —such as the need for them to be necessary, temporary and participatory— could also be applied to these decisions.

6. Expansion of Fiscal Space. Due to States' obligation to mobilize the maximum of available resources, they should consider using monetary policy and debt borrowing as instruments to obtain the resources needed to fully guarantee rights and eliminate existing discrimination, while being responsive to the external and policy constraints of each country[20].

7. Transparency, Participation and Accountability. States should ensure that monetary policy is a transparent, participatory, and policy making bodies are accountable. Relevant entities, such as Central banks, should have a diverse membership, with adequate representation and balance, for example, in terms of gender and race[21]. Management positions in Central banks should not be held by financial market representatives, to avoid conflict of interest

15. Idem

16. ROSSI e GERBASE. "Guia Ilustrado de Inflação, Política Monetária e Direitos Humanos". https://www.inesc.org.br/guiailustrado/.

17. ROSSI e GERBASE. "Guia Ilustrado de Inflação, Política Monetária e Direitos Humanos". https://www.inesc.org.br/guiailustrado/.

18. A recent study by the US Council of Economic Advisors found that lower-income families experienced a higher effective inflation rate over the past 30 years, due to the higher proportion of their spending that goes to childcare, rent and healthcare costs. Council of Economic Advisors, and Office of Management and Budget, "The Cost of Living in America: Helping Families Move Ahead," The White House, August 2021 <https://www.whitehouse.gov/wp-content/uploads/2021/08/Costs-Brief.pdf>. This is supported by recent research by the Bureau of Labor Statistics, which found that between 2003-2018, inflation was consistently higher for lowest-income households, according to modified calculations of the CPI. J. Klick and A. Stockburger, "Experimental CPI for lower and higher income households", US Bureau of Labor Statistics, <https://www.bls.gov/osmr/research-papers/2021/pdf/ec210030.pdf>.

19. ROSSI e GERBASE. "Guia Ilustrado de Inflação, Política Monetária e Direitos Humanos". https://www.inesc.org.br/guiailustrado/.

20. Principles 10 and 7 of the Principles of Human Rights in Fiscal Policy, and their respective guidelines.

21. ROSSI e GERBASE. "Guia Ilustrado de Inflação, Política Monetária e Direitos Humanos". https://www.inesc.org.br/guiailustrado/.

and "revolving doors".

Notably, the independence of Central banks, pursued by dozens of governments around the world, may go against the idea of popular participation in their decision-making, if institutions are no longer obliged to be accountable to government or society. If so, this practice should be discouraged.

8. Policy Coordination. States should ensure that their monetary policy is adequately coordinated and is consistent with other relevant policies, such as fiscal policy. All policies should be consistent with human rights' obligations and directed to the use of the resources and capacities available to comply with these obligations[22]. Coordination should be aimed at preserving macroeconomic conditions that, in the first place, prevent the occurrence of crises that put rights at risk, and eventually mitigate the negative effects of economic cycles on rights[23]. Monetary and exchange rate policies are usually interconnected and determined by the same entity and should therefore be particularly well-coordinated.

9. Observe the Extraterritorial Obligations of States. States, especially those whose Central banks directly or indirectly have a significant impact on the global financial system—such as the US Federal Reserve[24]—should assess whether their decisions are consistent with their extraterritorial human rights obligations when making monetary policy decisions[25]. At a minimum, they should comply with their obligation to respect human rights, which indicates that they should refrain from directly or indirectly interfering with the human rights of individuals in the territories of other countries.

10. International Financial Institutions. International financial institutions, especially the International Monetary Fund, should include human rights considerations when making recommendations around monetary policy of countries to which they provide technical or financial assistance, especially when they include monetary targets in lending to countries.

22. Principle 1 of the Principles of Human Rights in Fiscal Policy, and their respective guidelines.

23. Idem.

24. Martin, "The U.S. Wants to Tackle Inflation. Here's Why That Should Worry the Rest of the World", New York Times, April 2022, Available at <https://www.nytimes.com/2022/04/28/opinion/fed-inflation-interest-rates-third-world-debt.html>; D. Denvir y T. Barker, "A Socialist Primer on Monetary Policy and Inflation", The Jacobin, September 2021, available at <https://jacobinmag.com/2021/09/socialist-primer-monetary-policy-inflation-federal-reserve-volcker-shock-class-tim-barker-interview>.

25. Daniel D. Bradlow and Stephen Kim Park, "A GLOBAL LEVIATHAN EMERGES: THE FEDERAL RESERVE, COVID-19, AND INTERNATIONAL LAW", 114 Am. J. Int'l L. 657, American Journal of International Law.