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UN rights expert denounces poverty, inequality in US

The US has come under scrutiny in the latest report by the UN Special Rapporteur on extreme poverty and human rights. The independent rights expert decries the high levels of poverty and inequality prevailing in the country, noting that "neither its wealth nor its power nor its technology is being harnessed to address the situation in which 40 million people continue to live in poverty".

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"American Dream" rapidly becoming "American Illusion"

A UN rights expert has issued an indictment of the high levels of poverty and inequality in the US, where "contrasts between private wealth and public squalor abound".

by Kanaga Raja

GENEVA: "The American Dream is rapidly becoming the American Illusion as the US now has the lowest rate of social mobility of any of the rich countries," said Professor Philip Alston, the UN Special Rapporteur on extreme poverty and human rights, at the end of a two-week fact-finding mission to California, Alabama, Georgia, West Virginia and Washington DC, as well as Puerto Rico.

In his end-of-mission statement released on 15 December, the rights expert from Australia noted that his visit coincided with a dramatic change of direction in US policies relating to inequality and extreme poverty.

"The proposed tax reform package stakes out America's bid to become the most unequal society in the world, and will greatly increase the already high levels of wealth and income inequality between the richest 1% and the poorest 50% of Americans," he said.

"The dramatic cuts in welfare, foreshadowed by the President and [US House of Representatives] Speaker [Paul] Ryan, and already beginning to be implemented by the administration, will essentially shred crucial dimensions of a safety net that is already full of holes," he added.

The US is one of the world's richest, most powerful and technologically innovative countries, but neither its wealth nor its power nor its technology is being harnessed to address the situation in which 40 million people continue to live in poverty, said Alston.

"American exceptionalism was a constant theme in my conversations. But instead of realizing its founders' admirable commitments, today's United States has proved itself to be exceptional in far more problematic ways that are shockingly at odds with its immense wealth and its founding commitment to human rights. As a result, contrasts between private wealth and public squalor abound."

The rights expert highlighted a cross-section of statistical comparisons that he said provides a relatively clear picture of the contrast between the wealth, innovative capacity and work ethic of the US, and the social and other outcomes that have been attained:

- By most indicators, the US is one of the world's wealthiest countries. It spends more on national defence than China, Saudi Arabia, Russia, the United Kingdom, India, France and Japan combined.
- US healthcare expenditures per capita are double the average among the rich countries in the Organization for Economic Cooperation and Development (OECD) and much higher than in all other countries. But there are many fewer doctors and hospital beds per person than the OECD average.
- US infant mortality rates in 2013 were the highest in the developed world.
- Americans can expect to live shorter and sicker lives compared with people living in any other rich democracy, and the "health gap" between the US and its peer countries continues to grow.
- US inequality levels are far higher than those in most European countries.
- Neglected tropical diseases, including Zika, are increasingly common in the US. It has been estimated that 12 million Americans live with a neglected parasitic infection. A 2017 report documented the prevalence of hookworm in Lowndes County, Alabama.
- The US has the highest prevalence of obesity in the developed world.
- In terms of access to water and sanitation, the US ranks 36th in the world.
- America has the highest incarceration rate in the world, ahead of Turkmenistan, El Salvador, Cuba, Thailand and the Russian Federation. Its rate is nearly five times the OECD average.
- The youth poverty rate in the US is the highest across the OECD, with a quarter of youth living in poverty compared with less than 14% across the OECD.
- The Stanford Center on Poverty and Inequality characterizes the US as "a

clear and constant outlier in the child poverty league." US child poverty rates are the highest amongst the six richest countries – Canada, the United Kingdom, Ireland, Sweden and Norway.

● About 55.7% of the US voting-age population cast ballots in the 2016 presidential election. In the OECD, the US placed 28th in voter turnout, compared with an OECD average of 75%. Registered voters represent a much smaller share of potential voters in the US than just about any other OECD country. Only about 64% of the US voting-age population (and 70% of voting-age citizens) were registered in 2016, compared with 91% in Canada (2015) and the UK (2016), 96% in Sweden (2014) and nearly 99% in Japan (2014).

Alston said successive administrations in the US, including the present one, have determinedly rejected the idea that economic and social rights are full-fledged human rights, despite their clear recognition in key treaties that the US has ratified (such as the Convention on the Elimination of All Forms of Racial Discrimination) and in the Universal Declaration of Human Rights which the US has long insisted other countries must respect.

In practice, Alston said, the US is alone among developed countries in insisting that while human rights are of fundamental importance, they do not include rights that guard against dying of hunger, dying from a lack of access to affordable healthcare, or growing up in a context of total deprivation.

Extent of poverty

"I have been struck by the extent to which caricatured narratives about the purported innate differences between rich and poor have been sold to the electorate by some politicians and media, and have been allowed to define the debate," the rights expert pointed out.

The rich (according to this narrative) are industrious, entrepreneurial, patriotic and the drivers of economic success. The poor are wasters, losers and scammers. As a result, money spent on welfare is money down the drain.

"The reality that I have seen, however, is very different," he said.

It is a fact that many of the wealthiest citizens do not pay taxes at the rates that others do, hoard much of their wealth offshore, and often make their profits purely from speculation rather than contributing to the overall wealth of the American community.

The poor are overwhelmingly assumed to be people of colour, whether African Americans or Hispanic "immigrants". However, according to the rights expert, the reality is that there are 8 million more poor Whites than there are Blacks.

Similarly, large numbers of welfare recipients are assumed to be "living high on the hog". "Some politicians and political appointees with whom I spoke were completely sold on the narrative of such scammers sitting on comfortable sofas, watching colour TVs, while surfing on their smart phones, all paid for by welfare. I wonder how many of these politicians have ever visited poor areas, let alone spoken to those who dwell there. There are anecdotes aplenty, but evidence is nowhere to be seen."

The face of poverty in America is not only Black or Hispanic, but also White, Asian and many other colours. Nor is it confined to a particular age group. Automation and robotization are already throwing many middle-aged workers out of jobs in which they once believed themselves to be secure.

The rights expert said that in the economy of the 21st century, only a tiny percentage of the population is immune from the possibility that they could fall into poverty as a result of bad breaks beyond their own control.

"The American Dream is rapidly becoming the American Illusion as the US now has the lowest rate of social mobility of any of the rich countries," said Alston.

In September 2017, more than one in every eight Americans were living in poverty (40 million, equal to 12.7% of the population). And almost half of those (18.5 million) were living in deep poverty, with reported family income below one-half of the poverty threshold.

According to the rights expert, what is known, from long experience and in light of the government's human rights obligations, is that there are indispensable ingredients for a set of policies designed to eliminate poverty. They include: democratic decision-making, full employment policies, social protection for the vulnerable, a fair and effective justice system, gender and racial equality and respect for human dignity, responsible fiscal policies, and environmental justice.

"Currently, the United States falls far short on each of these issues," the rights expert underlined.

Democracy being undermined

Alston said the foundation stone of American society is democracy, but it is being steadily undermined.

The principle of one person one vote applies in theory, but it is far from the reality. In the US, there is overt disenfranchisement of vast numbers of felons, a rule which predominantly affects Black citizens since they are the ones whose conduct is often specifically targeted for criminalization. In addition, there are often requirements that persons who have paid their debt to society still cannot regain their right to vote until they have paid off all outstanding fines and fees.

Then there is covert disenfranchisement, which includes the dramatic gerrymandering of electoral districts to privilege particular groups of voters, the imposition of artificial and unnecessary voter ID requirements, the blatant manipulation of polling station locations, the relocating of DMVs (Department of Motor Vehicles) to make it more difficult for certain groups to obtain IDs, and the general ramping up of obstacles to voting especially by those without resources.

"The net result is that people living in poverty, minorities, and other disfavoured groups are being systematically deprived of their voting rights."

The rights expert also highlighted some shortcomings in basic social protection, citing major concerns over the plight of indigenous peoples, children in poverty and adult dental care.

He noted that a shockingly high number of children in the US live in poverty. In 2016, 18% of children – some 13.3 million – were living in poverty, with children comprising 32.6% of all people in poverty. Child poverty rates are highest in the southern states, with Mississippi, New Mexico at 30% and Louisiana at 29%.

Contrary to the stereotypical assumptions, 31% of poor children are White, 24% are Black, 36% are Hispanic, and 1% are indigenous. When looking at toddlers and infants, 42% of all Black children are poor, 32% of Hispanics, and 37% of Native American infants and toddlers are poor. The figure for Whites is 14%.

Alston also noted that homeless estimates published by the US Department of Housing and Urban Development in December 2017 showed a nationwide figure of 553,742, including 76,500 in New

York, 55,200 in Los Angeles and 6,900 in San Francisco.

"In many cities and counties the criminal justice system is effectively a system for keeping the poor in poverty while generating revenue to fund not only the justice system but diverse other programmes."

According to Alston, so-called "fines and fees" are piled up so that low-level infractions become immensely burdensome, a process that affects only the poorest members of society who pay the vast majority of such penalties.

"Solutions to major social challenges in the US are increasingly seen to lie with privatization. While the firms concerned have profited handsomely, it is far from clear that optimum outcomes have been achieved for the relevant client populations."

For example, bail bond corporations which exist in only one other country in the world, precisely because they distort justice, encourage excessive and often unnecessary levels of bail, and fuel and lobby for a system that by definition penalizes the poor.

Tax and welfare reform

Alston issued his statement just as the US Congress was considering a final unified version of the far-reaching tax reform bill. From a human rights perspective, he said, the lack of public debate, the closed nature of the negotiation, the exclusion of the representatives of almost half of the American people from the process, and the inability of elected representatives to know in any detail what they were being asked to vote for, all raise major concerns.

While most other nations, and all of the major international institutions such as the OECD, the World Bank and the IMF have acknowledged that extreme inequalities in wealth and income are economically inefficient and socially damaging, the tax reform package is "essentially a bid to make the US the world champion of extreme inequality", said Alston.

As noted in the World Inequality Report 2018, in both Europe and the US the top 1% of adults earned around 10% of national income in 1980. In Europe that share has risen today to 12%, but in the US it has reached 20%.

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BCBS finalizes Basel III/IV reforms

New international banking standards have been agreed which are said to address shortcomings in the pre-2008-crisis regulatory framework and to provide a foundation for a resilient banking system.

by Chakravarthi Raghavan

GENEVA: After a long period of consultations and efforts to bridge mainly trans-Atlantic differences, top international central bankers and regulators have struck a deal on bank capital rules and made public the global regulatory framework of the banking sector, enhancing capital requirements for banks to ensure a resilient banking system to support the real economy through the economic cycle.

The long-awaited standards and regulatory framework were finalized and made public on 7 December by the Basel Committee on Banking Supervision (BCBS), whose secretariat is located at the Bank for International Settlements (BIS) in Basel.

While the framework of reforms and changes announced is formally a tightening up of the current Basel III regulatory framework, they are so wide-ranging (in the wake of the global financial crisis unleashed in 2008) that the framework is now being unofficially characterized as Basel IV.

However, only the future will tell whether Basel IV will avert the kind of crisis that the financial sector saw after 2008 (with banks having to be rescued by the taxpayer), or whether the actors in the financial sector (now many times the size of the real economy and seemingly with a life of its own) will find ways to get around regulations and spring a new financial crisis on the world.

Many of the standards and requirements of Basel IV will kick in over a long period of about 10 years, with national banking supervisors given an element of flexibility in applying them, in terms of timeframes and relaxing (temporarily) capital requirements.

Initial indications are that European banks would be most impacted, needing to increase their capital due, among others, to limits on how much the biggest banks can diverge from regulators' risk calculations for assets such as mortgages.

According to the documents made public by the BCBS, the reformed global regulatory framework of the banking sector, which will enhance capital requirements for banks, will ensure a resilient banking system and provide a foundation for a resilient system to support the real economy through the economic cycle.

A press release and executive summary of the detailed note published by the BCBS summarizes the main features of the finalized Basel III reforms. The standards text, which provides the full details of the reforms, is published separately and is available on the BIS website at www.bis.org / bcbs / publ / d424.htm.

The revised Basel III framework is a central element of the Basel Committee's response to the global financial crisis. It addresses a number of shortcomings in the pre-crisis regulatory framework and provides a foundation for a resilient banking system that will help avoid the build-up of systemic vulnerabilities.

The initial phase of Basel III reforms focused on strengthening several components of the regulatory framework. The Committee's now finalized reforms complement these improvements to the global regulatory framework. The revisions seek to restore credibility in the calculation of risk-weighted assets (RWAs) and improve the comparability of banks' capital ratios.

Credit risk framework

Credit risk accounts for the bulk of most banks' risk-taking activities and hence their regulatory capital requirements. The standardized approach for credit risk is used by the majority of banks around the world, including in non-Basel Committee jurisdictions. This approach has now been revised to enhance the regulatory framework. In summary, the key revisions are as follows:

- A more granular approach has been developed for unrated exposures to banks and corporates, and for rated exposures in jurisdictions where the use of credit ratings is permitted.
- For exposures to banks, some of the risk weights for rated exposures have been recalibrated. In addition, the risk-weighted treatment for unrated exposures is more granular than the existing flat risk weight. A standalone treatment for covered bonds has also been introduced.
- For exposures to corporates, a more granular look-up table has been developed. A specific risk weight applies to exposures to small and medium-sized enterprises (SMEs). In addition, the revised standardized approach includes a standalone treatment for exposures to project finance, object finance and commodities finance.
- For residential real estate exposures, more risk-sensitive approaches have been developed, whereby risk weights vary based on the LTV ratio of the mortgage (instead of the existing single risk weight) and in ways that better reflect differences in market structures.
- For retail exposures, a more granular treatment applies, which distinguishes between different types of retail exposures. For example, the regulatory retail portfolio distinguishes between revolving facilities (where credit is typically drawn upon) and transactors (where the facility is used to facilitate transactions rather than a source of credit).
- For commercial real estate exposures, approaches have been developed that are more risk-sensitive than the flat risk weight which generally applies.
- For subordinated debt and equity exposures, a more granular risk weight treatment applies (relative to the current flat risk weight).
- For off-balance-sheet items, the credit conversion factors (CCFs), which are used to determine the amount of an exposure to be risk-weighted, have been made more risk-sensitive, including the introduction of positive CCFs for unconditionally cancellable commitments.

Several major banks however use an internal ratings-based (IRB) approach for credit risk, rather than the standardized approach. The 2008 financial crisis highlighted a number of shortcomings related to the use of internally modelled approaches for regulatory capital, including the IRB approaches to credit risk. These shortcomings include the excessive complexity of the IRB approaches, the lack of comparability in banks' internally modelled IRB capital requirements and the lack of robustness in modelling certain asset classes.

To address these shortcomings, the

BCBS has made several revisions to the IRB approaches: (i) removed the option to use the advanced IRB (A-IRB) approach for certain asset classes; (ii) adopted "input" floors (for metrics such as probabilities of default and loss-given-default) to ensure a minimum level of conservatism in model parameters for asset classes where the IRB approaches remain available; and (iii) provided greater specification of parameter estimation practices to reduce RWA variability.

Given the enhancements to the IRB framework and the introduction of an aggregate output floor, the BCBS has agreed to remove the 1.06 scaling factor that is currently applied to RWAs determined by the IRB approach to credit risk.

CVA risk framework

The initial phase of Basel III reforms introduced a capital charge for potential mark-to-market losses of derivative instruments as a result of the deterioration in the creditworthiness of a counterparty. This risk – known as CVA risk – was a major source of losses for banks during the global financial crisis, exceeding losses arising from outright defaults in some instances.

The BCBS has now agreed to revise the CVA framework to: enhance its risk sensitivity; strengthen its robustness; and improve its consistency.

Operational risk framework

The financial crisis highlighted two main shortcomings with the existing operational risk framework. First, capital requirements for operational risk proved insufficient to cover operational risk losses incurred by some banks. Second, the nature of these losses – covering events such as misconduct, and inadequate systems and controls – highlighted the difficulty associated with using internal models to estimate capital requirements for operational risk.

The BCBS has now streamlined the operational risk framework. The advanced measurement approaches (AMA) for calculating operational risk capital requirements (which are based on banks' internal models) and the existing three standardized approaches are replaced with a single risk-sensitive standardized approach to be used by all banks.

The new standardized approach for operational risk determines a bank's operational risk capital requirements based on two components: (i) a measure of a bank's income; and (ii) a measure of a bank's historical losses.

Conceptually, it assumes: (i) that operational risk increases at an increasing rate with a bank's income; and (ii) that banks which have experienced greater operational risk losses historically are more likely to experience operational risk losses in the future.

Leverage ratio framework

The leverage ratio complements the risk-weighted capital requirements by providing a safeguard against unsustainable levels of leverage and by mitigating gaming and model risk across both internal models and standardized risk measurement approaches.

To maintain the relative incentives provided by both capital constraints, the finalized Basel III reforms introduce a leverage ratio buffer for global systemically important banks (G-SIBs). Such an approach is consistent with the risk-weighted G-SIB buffer, which seeks to mitigate the externalities created by G-SIBs.

The leverage ratio G-SIB buffer must be met with Tier 1 capital and is set at 50% of a G-SIB's risk-weighted higher loss absorbency requirements. The leverage ratio buffer takes the form of a capital buffer akin to the capital buffers in the risk-weighted framework.

As such, the leverage ratio buffer will be divided into five ranges. As is the case with the risk-weighted framework, capital distribution constraints will be imposed on a G-SIB that does not meet its leverage ratio buffer requirement.

The distribution constraints imposed on a G-SIB will depend on its Common Equity Tier 1 (CET1) risk-weighted ratio and Tier 1 leverage ratio. A G-SIB that meets its CET1 risk-weighted requirements (defined as a 4.5% minimum requirement, a 2.5% capital conservation buffer and the G-SIB higher loss absorbency requirement) and its Tier 1 leverage ratio requirement (defined as a 3% leverage ratio minimum requirement and the G-SIB leverage ratio buffer) will not be subject to distribution constraints. A G-SIB that does not meet one of these requirements will be subject to the associated minimum capital conservation requirement (expressed as a percentage of earnings). A G-SIB that does not meet both requirements will be subject to the higher of the two associated conservation requirements.

In addition to the introduction of the G-SIB buffer, the BCBS has agreed to make various refinements to the definition of the leverage ratio exposure measure. These refinements include modifying the way in which derivatives are reflected in the exposure measure and updating the treatment of off-balance-sheet exposures to ensure consistency with their measurement in the standardized approach to credit risk.

It has also agreed that jurisdictions may exercise national discretion in periods of exceptional macroeconomic circumstances to exempt central bank reserves from the leverage ratio exposure measure on a temporary basis. Jurisdictions that exercise this discretion would be required to recalibrate the minimum leverage ratio requirement commensurately to offset the impact of excluding central bank reserves, and require their banks to disclose the impact of this exemption on their leverage ratios.

The BCBS continues to monitor the impact of the Basel III leverage ratio's treatment of client-cleared derivative transactions. It will review the impact of the leverage ratio on banks' provision of clearing services and any consequent impact on the resilience of central counterparty clearing.

Output floor

The Basel II framework introduced an output floor based on Basel I capital requirements. That floor was calibrated at 80% of the relevant Basel I capital requirements. Implementation of the Basel II floor has been inconsistent across countries, partly because of differing interpretations of the requirement and also because it is based on the Basel I standards, which many banks and jurisdictions no longer apply.

The Basel III reforms replace the existing Basel II floor with a floor based on the revised Basel III standardized approaches. Consistent with the original floor, the revised floor places a limit on the regulatory capital benefits that a bank using internal models can derive relative to the standardized approaches. In effect, the output floor provides a risk-based backstop that limits the extent to which banks can lower their capital requirements relative to the standardized approaches.

This helps to maintain a level playing field between banks using internal models and those on the standardized approaches. It also supports the credibility of banks' risk-weighted calculations, and improves comparability via the related disclosures. Banks will also be required to disclose their risk-weighted assets based on the revised standardized approaches. Details about these disclosure requirements will be set forth in a forthcoming consultation paper.

The BCBS documents made public on 7 December have also outlined the transitional arrangements and the various implementation dates related to the revised standards. *(SUNS8595)* ❐

(continued from page 4)

In the same time period in the US, annual income earnings for the top 1% have risen by 205%, while for the top 0.001% the figure is 636%. By comparison, the average annual wage of the bottom 50% has stagnated since 1980.

In calculating how the proposed tax cuts can be paid for, the US Treasury Department has explicitly listed welfare reform as an important source of revenue. Indeed, various key officials have made the same point that major cuts will need to be made in welfare provision.

"Given the extensive, and in some cases unremitting, cuts that have been made in recent years, the consequences for an already overstretched and inadequate system of social protection are likely to be fatal for many programmes, and possibly also for those who rely upon them," Alston cautioned.

The rights expert also drew attention to the new information technologies, saying that the term "new information technology" or "new technology" is not well defined despite its frequent use. It is commonly used for such widely different but interrelated phenomena as the spectacular increase in computing power, "Big Data", machine learning, algorithms, artificial intelligence and robotization, among other things. These separate terms often also lack a clear definition, he said, adding that while there are clear benefits to the rapid development of new information technology, the risks are also increasingly clear.

"Much more attention needs to be given to the ways in which new technology impacts the human rights of the poorest Americans. This inquiry is of relevance to a much wider group since experience shows that the poor are often a testing ground for practices and policies that may then be applied to others," said the rights expert. *(SUNS8600)* ❐

A tale of two mountains

A new global coalition of social groups aims to combat inequality by seeking solutions from those who suffer it, not those who caused it.

by Ben Phillips

At the same time as the rich and powerful hold forth at the World Economic Forum's annual meet about fixing the crisis of inequality they created, a new movement called the Fight Inequality Alliance is telling another story that is growing around the world.

As the world's 1% gather in the luxury Swiss mountain resort of Davos on 23-26 January, rallies are taking place around the globe on mountains of a very different sort – the mountains of garbage and of open-pit mines that millions call home.

People will be gathering in events in countries including India, Kenya, Nigeria, Senegal, South Africa, the United Kingdom, The Gambia, Tunisia, Zambia, Zimbabwe, Denmark, the Philippines, Indonesia, Nepal, Bangladesh, Pakistan and Mexico to publicly demand an end to inequality.

Worldwide the groups involved include Greenpeace, ActionAid, Oxfam, Asia People's Movement on Debt and Development, Femnet, Global Alliance for Tax Justice and the International Trade Union Confederation. The events include a pop concert at a slum next to a garbage mountain in Kenya, a football match in Senegal, a public meal sharing in Denmark, a rally at an open-pit mine in South Africa, a sound truck in Nigeria, and a giant "weighing scales of injustice" in the UK.

The protesters are demanding an end to the "Age of Greed", and say that the solutions to the inequality crisis will not come from the same elites that caused the problem. People living on the frontlines of inequality are the key to the radical change that is needed, they say.

They are already organizing to build their power by joining together in a global Fight Inequality Alliance that unites social movements, women's rights groups, trade unions and NGOs in over 30 countries across the world. They are urging the world to hear the solutions to inequality from those who suffer it, not those who caused it.

Nester Ndebele, challenging the mining companies which are widening inequality in South Africa, remarks: "These mining companies claim to bring development but they make a fortune while leaving our land unfarmable, our air dangerously polluted, and our communities ripped apart. Women bear the brunt of this. They claim it is worth it for the energy they provide but the wires go over our homes with no connection. The politicians need to stop listening to the mining companies' fancy speeches and hear from us instead."

Mildred Ngesa, fighting for women's rights in Kenya, explains why the events are taking place at the same time as, and as a counter to, the elite Davos meeting in Switzerland: "All these rich men at Davos say all these nice things about women's empowerment but when young women in the places I grew up have no economic security, many have little real choices beyond the red light. We need jobs, housing, and free education and health, not speeches from the same people who push for corporate tax exemptions which take away resources needed to advance equality."

Campaigners are calling on governments to curb the murky influence of the super-rich who they blame for the Age of Greed, when billionaires are buying not just yachts but laws. Community groups' ideas, which the elites don't mention, include an end to corporate tax breaks, higher taxation on the top 1% to enable quality health and education for all, increases in minimum wages and stronger enforcement, and a limit to how many times more a boss can earn than a worker.

"We have rising inequality because the rich are determining what governments should do. Davos can never be the answer because the problem is caused by the influence of the people at Davos. Governments around the world must listen instead to their citizens, and end the Age of Greed. We know that governments will only do that when we organize and unite, so we are coming together as one. The power of the people is greater than the people in power," says Filipina activist Lidy Nacpil, a co-founder of the Fight Inequality Alliance. *(IPS)* ❒

Ben Phillips is Launch Director of the Fight Inequality Alliance.

How Latin America bucked the trend of rising inequality

Going against the global grain, Latin America has seen a decline in inequality levels. *Alice Evans* offers possible reasons as to how the rich-poor gap in the region was narrowed.

Income inequality is gaining attention.

The good news is that we know how to tackle it: tax global wealth, provide a universal basic income, broaden access to quality education and promote decent work.

The bad news is that many governments are not interested – and neither are their electorates. In order to stem rising inequality, we need to understand what drives resistance, politicization and government responsiveness.

Latin America offers some useful lessons. Here, income inequality has actually fallen, as shown by a decline in the average Gini index of 13%, from 2000-12. This bucks the global trend of growing income inequality.

Income inequality in Latin America partly fell due to labour market shifts. Poor people's wages rose due to the commodities boom (which fuelled demand for unskilled labour); higher skills (facilitated by government investment in education); and active labour market policies (enforcing labour laws and increasing minimum wages).

This was complemented by the redistribution of wealth. Rising public spending on healthcare, education and social protection improved both coverage and quality for all citizens.

We now need to understand why these policies were adopted. I think there are three possible explanations: increased government revenue (due to the commodities boom); democratization (incentivizing political parties to court poor voters); and social movements that make inequality a political issue.

Extra government revenue

Arguably, public spending to benefit all levels of society was enabled by the 2000s commodities boom. This was accompanied by improved terms of trade, economic growth, increased tax/GDP ratio, debt cancellation, reduced dependence on the US and international financial institutions, as well as more foreign aid to achieve the Millennium Development Goals.

But why did governments choose to redistribute, rather than enrich the elite? Latin American economies had also grown in the 1990s, but inequality continued to soar (just like in the US today). But in the 2000s, we saw rising support for leftist parties, promising redistribution.

Democratization

Democratization might help explain falling inequality. The desire to secure votes and retain power may have incentivized political parties to court poor voters and address their concerns.

However, there is no robust evidence that democracy reduces inequality. Nor does democracy appear to increase social spending in Latin America. Further, the poorest do not necessarily vote for left-wing parties.

That said, when we look at a 20-year period, democratization is associated with increased social spending and reduced income inequality. Democratization appears to enable important other factors, such as leftist organizing.

Social movements

One long-term process has been social mobilization, which has politicized inequality.

Indigenous parties, representing some of the poorest groups in Latin America, have performed better in countries with stronger, more unified indigenous social movements.

Strikes have also had a long-term positive effect on social security spending. Demonstrations have been led by neighbourhood associations, landless people, unemployed workers, coca growers, domestic workers, women's organizations, pensioners and students.

The movements were largely triggered by economic self-interest. Price increases, mining projects, wage freezes, mass layoffs, privatization, economic stabilization and mineral extraction made inaction too costly for protesters.

Changing ideas

Though social mobilization was triggered by economic liberalization, it then catalyzed a shift in ideas. By sharing experiences at rallies and roadblocks, recognizing common grievances, puncturing neoliberal orthodoxy, celebrating hitherto marginalized identities and seeing widespread resistance to the status quo, many Latin Americans gained confidence in the possibility of social change.

Key here are "norm perceptions": our beliefs about what others think and do. If we never see resistance, we may assume others accept the status quo. So we become despondent and reluctant to mobilize. Such norm perceptions can reinforce inequality. But this changed in Latin America, through sustained activism.

Norm perceptions also changed when people saw progress in neighbouring countries. Electoral victories in Colombia, Ecuador and Bolivia emboldened indigenous organizations in other countries to form political parties. This regional effect may partly explain why inequality fell in Latin America but not elsewhere.

Also relevant are Latin America's high levels of urbanization. People living in interconnected, heterogeneous, densely populated areas are more likely to hear alternative, critical discourses, listening to community radio sharing positive narratives about marginalized groups. They are more likely to see slogans of resistance emblazoned in street art and learn about successful activism.

Such exposure shifts norm perceptions and enables positive feedback loops. By seeing their peers pushing for change, people may become more confident in the possibility of collective resistance and join forces. This kind of shared learning is clearly much harder in more remote areas.

Through sustained networking and resistance, which secured redistribution and recognition, many Latin Americans have come to expect more of their governments.

But material change has not kept pace with demand. Latin American governments have failed to carefully manage commodities booms and rein in corruption. When prices tumbled, so did these governments. But inequality remains politicized.

To amplify resistance against inequality, we need to shift norm perceptions. My research on Latin America reveals the importance of seeing widespread resistance, realizing the power of collective organizing, securing government response – and recognizing that inequality can be radically reduced. ❐

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It's time to end the World Bank's biased business regulation ratings

An annual World Bank report that has long attracted criticism for unduly promoting a deregulation agenda has now come under fire from an unlikely quarter – the Bank's own chief economist.

by Peter Bakvis

The World Bank's chief economist has set off a firestorm over its system of assigning ratings to 190 countries' business climates, which are published yearly through its flagship *Doing Business* report.

Trade unions, civil society organizations, some governments and international organizations have long criticized the report for its ideologically driven anti-regulation stance. Now even Bank chief economist Paul Romer has attacked the report for its lack of "integrity". As reported by the *Wall Street Journal*, Romer stated that many countries' *Doing Business* scores and rankings, which purport to measure the degree of business-friendliness of regulations, changed from year to year because of changes in the report's methodology – not in countries' regulations.

While Romer noted that many countries' scores have been unjustly altered through the methodology changes, he specifically apologized to the government of outgoing Chilean President Michelle Bachelet, observing that the actions of the *Doing Business* team amounted to putting a "thumb on the scales". The changes penalized Chile when the Socialist Party's Bachelet was in power, leading to worsening scores, which improved when conservative President Sebastián Piñera was in power. Romer stated that "changes to the methodologies used in the rankings had the appearance of being politically motivated".

Bachelet is calling for a full investigation of the World Bank's ratings system, noting that such a financial monitoring apparatus "should be trustworthy, since they impact investment and countries' development". Chilean Economy Minister Jorge Rodriguez Grossi said in a statement that "it is rare to see action this immoral". Some Chilean officials have suggested that the country's poor *Doing Business* ranking might have been a factor in the conservative Piñera's successful campaign to regain the presidency in December.

The *Wall Street Journal* article extensively quotes the former director of *Doing Business*, Augusto Lopez-Claros, currently on leave from the Bank, who vigorously defends the report. Prior to heading the team that prepares *Doing Business*, Lopez-Claros had a career at the International Monetary Fund (IMF), Lehman Brothers and the University of Chile.

Unfounded claims

Before Romer's harsh attack, much of the criticism of *Doing Business* focused on an earlier labour indicator that gave best scores to countries with highly deregulated labour markets. Having no minimum wage laws, for example, garnered a higher score. Contrary to what *Doing Business* repeatedly asserted, the World Bank's own research has found that in most cases labour market deregulation does not improve economic outcomes.

In the face of strong pressure from trade unions, the report dropped the labour market flexibility indicator in 2010, but it continues to give worse rankings to countries that mandate higher levels of taxation and social contributions from business.

This year's 300-page *Doing Business 2018* also made unfounded claims that more "business-friendly" regulations are key to lowering income inequality. The report notes that the 20 countries receiving the best (i.e., most business-friendly) scores – almost all of which are advanced economies – have a lower Gini inequality coefficient than the 20 countries that receive the worst scores.

A casual look at the 20 poor performers reveals they include many countries facing severe civil or political conflict, including Syria, DR Congo, Afghanistan, Central African Republic, Libya, Yemen, South Sudan, Venezuela and Somalia. It's ludicrous for the Bank to imply that the only thing these wartorn countries have to do to achieve more equal income distribution is to deregulate business.

The International Labour Organization and some academic critics have also observed that the *Doing Business* report is susceptible to manipulation by the pro-business law firms that complete the survey questionnaires on which the *Doing Business* scores are based. The firms have included such illustrious corporate citizens as the Mossack Fonseca group, made famous through the Panama Papers for helping wealthy individuals hide their assets in tax havens. Even the IMF acknowledged the "subjective nature" of the *Doing Business* indicators in a working paper published in 2011.

Amidst all the controversy, the World Bank's executive board established an independent panel in 2013 that recommended several changes to the ratings report and its status within the Bank, including the elimination of country rankings and deleting the tax rate indicator. The latter penalizes countries that require business to pay taxes or make contributions to pensions and other social protection schemes that exceed a low threshold. However, Bank management rejected almost all the recommendations made by the panel.

In the current firestorm created by their chief economist, World Bank officials are continuing to defend their ratings system, including its treatment of Chile. But Romer's criticism raises critical questions about the appropriateness of the World Bank, a publicly funded multilateral institution, promoting a conservative anti-regulation agenda in its "flagship" report and attempting to discredit governments that don't agree with it. ❒

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PPPs likely to undermine public health commitments

Public-private partnerships are no panacea for serving public health needs, explain *Anis Chowdhury* and *Jomo Kwame Sundaram*.

The United Nations Agenda 2030 for the Sustainable Development Goals (SDGs) is being touted in financial circles as offering huge investment opportunities requiring trillions of dollars. In 67 low- and middle-income countries, achieving SDG 3 – healthy lives and well-being for all, at all ages – is estimated to require new investments increasing over time, from an initial $134 billion annually to $371 billion yearly by 2030, according to recent estimates by the World Health Organization (WHO) reported in *The Lancet*.

Deprived of fiscal and aid resources, none of these governments can finance such investments alone. The UN Intergovernmental Committee of Experts on Sustainable Development Financing estimated in 2014 that annual global savings (both public and private sources) were around $22 trillion, while global financial assets were around $218 trillion.

The third International Conference on Financing for Development in Addis Ababa in mid-2015 recommended "blended finance" as well as other public-private partnerships (PPPs) to pool public and private resources and expertise to achieve the SDGs. Development finance institutions, particularly the World Bank, are the main cheerleaders for these supposed magic bullets.

Sensing the new opportunity for mega-profits, the private sector has embraced the SDGs. The World Economic Forum now actively promotes PPPs with DEVEX, a private-sector-driven network of development experts. A recent DEVEX opinion claims that PPPs can unlock billions for health financing. It invokes some philanthropy-driven global partnership success stories – such as the Global Alliance for Vaccine Initiatives (GAVI) and the Global Fund to Fight AIDS, TB and Malaria – to claim that national-level PPPs will have similar results.

A managed equipment services (MES) arrangement with GE Healthcare in Kenya is also cited as a success story, ignoring criticisms. For example, Dr. Elly Nyaim, head of the Kenya Medical Association, has pointed out that MES has not addressed basic problems of Kenya's health system, such as inappropriate training and non-payment of salaries to frontline health workers, encouraging emigration of well-trained health professionals to developed countries and thereby further worsening Kenya's already difficult health dilemmas.

It should be obvious to all that private sector participation in the development process is hardly novel, having long contributed to investments, growth and innovation. Not-for-profit civil society organizations (CSOs), especially faith-based ones, have also been significant for decades in education and health. Thus, in many developing countries such as Bangladesh and Indonesia, health and education outcomes are much better than what public expenditure alone could fund.

However, PPPs have a long and chequered history, especially in terms of ensuring access and equity, typically undermining the SDGs' overarching principle of "leaving no one behind", including the SDG and WHO promise of universal healthcare.

Also, partnerships with for-profit private entities have rarely yielded better fiscal outcomes, in terms of both finance and value for money (VfM).

Misleading claims regarding benefits and costs have been invoked to justify PPPs. Most claimed benefits of health PPPs do not stand up to critical scrutiny.

As a policy tool, they are a typically inferior option to respond to infrastructure shortfalls in the face of budgetary constraints by moving expenditures off-budget and transferring costs to future governments as well as consumers and taxpayers.

Typically driven by political choices rather than real economic considerations, PPP-incurred debt and risk are generally higher than for government borrowing and procurement. PPPs also appear to have limited innovation and raised transactions costs.

PPP hospital-building quality is not necessarily better, while facilities management services have generally reduced VfM compared to non-PPP hospitals. Underfunding and higher PPP costs lead to cuts in service provision to reduce deficits, harming public health.

Healthcare PPPs in low- and middle-income countries have raised concerns about: competition with other health programmes for funding, causing inefficiencies and wasting resources; discrepancies in costs and benefits between partners typically favouring the private sector; incompatibility with national health strategies; and poor government negotiating positions vis-a-vis powerful pharmaceutical and other healthcare service companies from donor countries.

Perverted priorities

Rich and powerful private partners often reshape governmental and state-owned enterprise priorities and strategies, and redirect national health policies to better serve commercial interests and

(continued on page 16)

How the World Bank's push for microcredit failed the poor

Far from eradicating poverty, the microcredit model – which has counted the World Bank among its most fervent advocates – has in fact consigned the poor to continued deprivation and undermined prospects for equitable development.

by Milford Bateman

Popularized in the 1980s by the work of future (in 2006) Nobel Peace Prize recipient Muhammad Yunus, the microcredit model was seen as the most awe-inspiring local economic development model of all time. The disbursement of a simple microloan to the poor was seen as pure genius: it allowed the poor to become self-employed entrepreneurs en masse – which, as Yunus claimed many times, would "eradicate poverty in a generation". The sheer market-driven simplicity of microcredit and, above all, its ideological attraction led to a wave of international development community support for microcredit from the 1980s onwards.

The World Bank has not just played a pivotal role in helping to establish the global microcredit industry, its Consultative Group to Assist the Poor (CGAP) was established in 1995 to take the lead in ensuring that the original NGO-led subsidized microcredit model was replaced by a more ideologically appropriate for-profit business model.

As predicted, the introduction of the profit motive ensured a rapid rise in the supply of microcredit throughout the Global South. The most passionate advocates of the commercialized microcredit model, including the Bank, announced excitedly that a "new world" of massive poverty reduction was just around the corner. It all seemed too good to be true. And it was.

The reality is that in virtually all locations in the Global South where the microcredit model has reached critical mass, it has actually undermined and blocked the achievement of sustainable and equitable "bottom-up" development and meaningful progress in poverty reduction. Several factors are important in explaining what happened.

The fundamental flaw with the microfinance model is very simple to see: it is the assumption that the citizens of a poor community will always be willing and able to purchase an unlimited amount of goods and services produced by those among them who have opted to use a microloan to set up or expand an informal microenterprise. Microfinance advocates from Yunus onwards had actually fallen for one of the most famous fallacies in economics, Say's Law, the mistaken idea that supply creates its own demand.

As the late Alice Amsden noted in her 2010 article "Say's Law, Poverty Persistence, and Employment Neglect", poverty in the Global South in recent times has arisen not because of an insufficient supply of the basic goods and services needed by the poor to survive, but because of the lack of purchasing power (effective demand) that is necessary for the poor to obtain these important things. This is why the bulk of microcredit clients either just about break even or fail in their attempt to set up a viable business. Struggling microenterprises, and especially outright failures, all too often lead to increasing and eventually unrepayable levels of debt for their hapless owners, but this deleterious development is conveniently overlooked by the microcredit sector, which naturally prefers to highlight only the tiny numbers of successes.

At the same time, high microcredit-induced levels of new entry, and so jobs and incomes additionally created in new entrants, are largely offset by an equally high level of job and income losses incurred when incumbent microenterprises lose customers and are pushed out of the local market (termed "displacement").[1] In fact, a microcredit-induced increase in the supply of the simple products and services provided by informal microenterprises and self-employment ventures is most often associated with what has been termed the "job-churn" phenomenon.[2]

In addition, the entry of new competitors assisted with microcredit often entails the loss of any collateral posted and other problems for the poor (such as forced migration to escape microcredit-induced debts). The additional poverty-push supply of simple goods and services also creates a hyper-competitive "dog-eat-dog" local economy that inevitably pushes average incomes down and degrades working conditions. In post-apartheid South Africa, for instance, an increase in informal sector competition, stimulated by the increase in the supply of microcredit, was one of a number of factors behind a dramatic increase in competition that significantly decreased the incomes of incumbent informal microenterprises. From 1997 to 2003, a more than 11% annual decline in self-employment incomes was registered, with real wages in the informal sector also falling by 7.8% per year.

Microcredit is not an effective local economic development policy

When the evidence for short-run poverty reduction gains proved illusive, the World Bank began to promote an argument that, it hoped, would continue to justify support for the microcredit model. It proposed that helping start many more informal microenterprises would in and of itself catalyze local development. Microenterprise development would provide the "seeds" required for longer-run sustainable development.

This hypothesized evolution turned out to be myth. First of all, microenterprises generally do not serve as a "breeding ground" for more productive formal small and medium-sized enterprises (SMEs). Almost all formal growth-oriented SMEs begin their life as formal SMEs, not as informal microenterprises. Second, informal microenterprises also seriously hinder important technology transfer and industrial upgrading processes. For example, large numbers of tiny retail outlets most often do not find it feasible to begin to mechanize, which greatly raises productivity, whereas a smaller number of larger retail outlets with higher volume do. Third, informal microenterprises are generally incapable of establishing crucial productivity-enhancing connections to other enterprises, such as through subcontracting, clustering, networking and supply chain participation.

Worst of all, the growth of needed formal productivity-raising SMEs is stunted by competition for markets and financial support from large numbers of informal microenterprises that do not pay decent wages, do not allow trade unions, do not pay local or national taxes, do not respect environmental legislation, and so on. This prevents the most productive enterprises from emerging and so inevitably traps the poor in the worst possible forms of employment in the informal sector. Thus, market share lost to the informal sector, even if only temporarily, immediately raises the formal sector's costs, as well as frustrating its long-run potential for expansion and for making crucial technology investments. The potential to eventually provide much higher-paying jobs in the poorest communities is therefore lost, and the poor remain trapped in the informal economy.

Indeed, the World Bank's own "Enterprise Surveys" pointedly show for many countries in the Global South that crucial financial support is swamping the unproductive informal microenterprise sector, and thereby effectively denying much financial support to the higher-productivity formal SMEs. This trend inevitably results in the rapid expansion of the former and the gradual contraction of the latter. The resulting investment shortage affecting SMEs thus further helps to deindustrialize, informalize and primitivize the local enterprise sector. Many microcredit institutions have woken up to this awkward fact and, in order to both survive in the face of over-indebtedness in microcredit markets and try to quietly repair some of the economic damage they have caused, are now openly shifting to provide more support for SMEs.

Microcredit meltdown

The commercialized and deregulated microcredit model that emerged in the 1990s under World Bank / CGAP tutelage was very centrally premised on the understanding that it would always responsibly lend to the global poor. Sadly, commercialization almost immediately created a wave of Wall Street-style "blowback" outcomes linked to reckless lending, fraud and profiteering.

Another predictable outcome of the profit-driven microcredit model is that in almost all locations where it has gained a significant foothold, a destructive subprime-style microcredit meltdown has eventually been precipitated. Beginning with Bolivia in 1999 and then South Africa in 2001, after 2007 a quick succession of microcredit meltdowns created huge problems in Nicaragua, Bosnia, Morocco, Pakistan, Cambodia and, the biggest to date, in the Indian state of Andhra Pradesh.

Bosnia is one of the worst examples of this phenomenon. World Bank financial and technical support to build the microcredit sector has been substantial from the conclusion of the Yugoslav civil war in 1995, initially taking the form of the $40 million Local Initiatives Project. However, little could be done to stop the rising over-indebtedness and the 2009 meltdown. Moreover, this destructive episode took place in tandem with a number of spectacular instances of fraud and egregious profiteering in the microcredit sector that were the inevitable outgrowths of the extensively deregulated environment demanded by the World Bank.

Cambodia also saw a massive expansion of microcredit after 2009 thanks to a flood of foreign investment and technical support, including that provided by the Bank and its private-sector arm, the International Finance Corporation (IFC). The IFC has, rather opportunistically, made a major capital gain from taking an equity stake in ACLEDA, the country's largest microcredit institution. Yet ultra-rapid growth driven by spectacular profitability has brought the sector to the verge of meltdown, and the Cambodian government has been forced into taking a series of aggressive and costly measures of late in order to limit the inevitable damage.

The reality across the Global South is that the microcredit industry and its investors now view the miserly earnings of informal microenterprises as a flow of funds that can be used to repay a growing supply of high-interest-rate microloans, thus allowing them to capture an increasingly large part of the economic surplus of a poor community. Such a debilitating scenario is probably not what the early pioneers of microcredit had expected to happen, but it has transpired nevertheless.

Financial inclusion to the rescue

With the microcredit model increasingly seen as having failed to resolve poverty, the World Bank began to mobilize in order to save it from collapse, and developed the "financial inclusion" agenda as the new answer to global poverty. With an abundance of research staff, lobbyists and programmes, the Bank proceeded to sell financial inclusion to the international development community and Western governments. With little independent evidence, it nevertheless continues to vector enormous resources into promoting financial inclusion.

One of the latest developments in the financial inclusion space – driven by the World Bank but ably abetted by the US Agency for International Development (USAID) acting on behalf of the biggest US financial and digital payments corporations – is the deployment of a range of IT and digital payments systems that increasingly include the poor in the local financial system. Marketed by the Bank as of enormous benefit to the poor, there are already worrying signs that this latest innovation will actually considerably add to their vulnerability and deprivation. For a start, even advocates accept that the simplicity in obtaining a new microloan and other trivial products and services via a mobile phone is going to extend the already pressing over-indebtedness problem in many countries, especially in Africa. For example, Kenya's hugely publicized M-Pesa has already been shown to have had no impact on poverty and has begun to quietly move to significantly up the level of profit it extracts from its poor clients.

A perfect example of what is likely in store for the poor comes from South Africa, where IFC-supported Net1 has used its contract to run the social grant system in the country to access data on clients. It then uses this data to market a range of additional products to its vulnerable clients, such as cellphone time, the payment for which is simply deducted from the social grant payment. The result has been a major rise in over-indebtedness and gradual loss of wealth by the poor, but very healthy profits for Net1. While South Africa's civil society has been outraged by such exploitative practices, the World Bank sees no problem with this business arrangement. Indeed, even after the extent of unlawful and unethical practices had been made public, the IFC invested $107 million in Net1 in April 2016.

The need for a new start

The World Bank saw in the microcredit model the potential to promote "a world without poverty" through market forces and individual entrepreneurship, yet without disadvantaging the business and political elites from which it draws its support. However, the reality, as noted in a Bank working paper published in November, is that researchers have so far "failed to find sustained evidence that access to microfinance has writ large done much to reduce poverty, improve living conditions, and fuel micro-businesses".[3]

Condemned to a life in the informal sector and deliberately stripped of any collective power and state agency to effect real pro-poor change, the global poor have been betrayed by the Bank and others that ostensibly spoke up on their behalf. The local financial system in the Global South thus needs urgent change: it needs a reboot in the direction of community-owned and -controlled financial institutions, such as credit unions, cooperative banks and municipal development banks, that by design lock in the priority to promote sustainable development and equitably serve the poor, not simply maximize profit for a narrow spectrum of already wealthy supporters.❐

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Macroeconomic developments of the 1920s and 1930s in selected countries

Andrew Cornford assesses the relative performance of three major European economies – the UK, France and Germany – in the turbulent times before and during the Great Depression.

In an article ("The Asian financial crisis and the vicissitudes of globalisation") in *Third World Resurgence* (No. 321, May 2017), Chakravarthi Raghavan suggests that during the Great Depression of the 1930s, the United Kingdom was worse affected than France or Germany. This statement should be nuanced. While all three countries in different ways experienced weaknesses in their economic performance, and in the case of France and Germany political problems linked to these weaknesses, for the UK its economic performance was superior to that achieved in the decade of the 1920s, though its long-term relative decline continued until the outbreak of the world war. The relative improvement in its economic performance in the 1930s was accompanied and probably favourably affected by its abandonment of the policy of free trade.

Trade and production

The UK

There are various measures of the long-term relative decline of the UK's position of "workshop of the world" from the 1850s until the outbreak of the First World War. The ratio of indices of the physical volumes of exports and imports (on a base of 1913 = 100) fell from 121 in 1854-60 to 86 in 1890-99 before recovering part of this loss in the years up to 1914.

During this period, the UK maintained its balance on the current account through its abnormal share of shipping, insurance and other cross-border commercial services. This trend continued after the end of the war, and the UK's position was further bolstered by a favourable movement in its terms of trade. However, the weakness of exports had as a counterpart the concentration of high levels of unemployment in the export trades.

The depreciation of the sterling after 1931 brought a temporary respite and the UK's share of world exports actually increased in 1932-33. But the trade gains due to devaluation were lost as the United States and France (and other countries) also left the Gold Standard. The effects of these losses on production and unemployment were partly offset by other developments which included low interest rates, increased investment in housing, and recourse to increased protectionism (described below). More uncertain in its effects on production and employment was government encouragement of monopolistic arrangements in coal, cotton, iron and steel, railways, agriculture and shipbuilding.

France

For France, the 1920s were a period of recovery from the war: the index of manufacturing rose (1913 = 100) from 61 in 1921 to 143 in 1929; exports grew more rapidly than imports; and France became a favoured destination for foreign investment seeking a secure home.

The slump beginning in 1929 was associated with a deterioration in the current account of the balance of payments from a surplus of 5.7 billion francs to 1.7 billion francs in 1931. Faced with the options of devaluation, deflation and stricter import controls, the government chose the latter two. Unemployment increased – with the number of those receiving unemployment benefits rising from 273,000 in 1932 to 432,000 in 1936 – and the fiscal deficit of the government also increased. Recourse was had to tariffs and quantitative restrictions on imports to control the deficit on the current account. Meanwhile substantial outflows on the capital account led to a reduction of France's gold reserves of $1.6 billion in 1935-37.

With the election of the Popular Front government in 1936, there were radical changes in policy: the working week was reduced from 48 to 40 hours but without reductions in pay; official support was introduced for wheat prices; and in September France left the Gold Standard and allowed the franc to float. However, increased expenditure on public works failed to prime the pump and private investment did not rise. By the spring of 1937, France had achieved more or less full employment but with industrial production at only 82% of the level of 1929, a paradoxical situation which is attributed to France's low domestic population growth combined with a fall in net immigration, the return of industrial workers to the countryside, and the fall in the hours of work.

Germany

After a period of economic chaos in the immediate aftermath of the war, the German economy recovered in the mid-1920s. The index on manufacturing production (1913 = 100) increased from 55 in 1923 to 123 in 1927. Export volume doubled between 1924 and 1929, and the country's unfavourable trade balance contracted.

However, from 1928 there began to be a deterioration in the country's position as foreign investors withdrew their funds due initially to speculation on financial instruments in Wall Street and then to political pressures from France and eventually to the rise of Hitler and the Nazi party. The depreciation of the sterling in 1931 aggravated Germany's problems. The government's response was initially deflation, import licensing and exchange controls, and restrictions on payments on external debt and on external dividends. Germany's external payments responded to only a limited extent: export volume in 1934, for example, was only about 50% of its level in 1929, and imports rose owing to the programme of increased government expenditure which began in 1932.

Import controls were linked to various policy objectives: making available foreign exchange for purposes linked to the programme for national autarky; expansion of trade with countries such as Italy and Japan for political reasons; and the promotion of economic stability through bilateral linking of exports and imports. The latter target led to special arrangements (described in more detail below) to achieve bilateral payments balance with certain countries, principally in South-East Europe and Latin America. The subsequent improvement in Germany's external payments was only limited, quantity indices in 1937 being at 69% of the 1929 level for exports and 80% for imports. However, the increase in public expenditure, initially concentrated on improving the environment and infrastructure and from 1935 on the rearmament programme, succeeded in a virtual elimination of unemployment, albeit one accompanied by high taxation and both voluntary and compulsory government borrowing.

External and selected other economic policies

The UK

The UK abandoned its traditional free-trade policies during the First World War. The McKenna Duties were imposed in 1915 on selected products, and the industries affected resisted their removal after the return of peace. Public attitudes became more favourable towards protection during the war owing to increased consciousness of the risks of dependence on foreign sources of supply and of the value of political and economic links with the Empire. The results included the introduction of rebates on imports from Empire countries and the Safeguarding of Industry Act of 1921 which provided for protection of key industries and the possibility of anti-dumping duties. The effects of these measures were initially limited; in 1930, of imports of GBP1.01 billion, only GBP138 million was subject to duties (mainly revenue duties).

The depreciation of the sterling in 1931 was followed by emergency action on the tariff front, the Abnormal Importation Act and the Horticultural Products Act. The more permanent measure which followed, the Import Duties Act of 1932, imposed a general *ad valorem* tariff of 10% on imports with exceptions for those originating in colonies and temporary exemptions for those from Dominions which were to be the subject of negotiations at the forthcoming Imperial Conference in Ottawa. The Act also provided for the eventual imposition of higher duties on the recommendation of a newly established Import Duties Advisory Committee – which provided the possibility of greatly increased protectionism – and discriminatory duties by the Board of Trade as required by tariff bargaining with other countries. The recommendations of the Import Duties Advisory Committee led to several tariff increases, but increases which largely exempted imports from Empire countries. According to estimates of *The Economist*, the percentage of imports from non-Empire countries entering the UK duty-free declined from 83% in 1930 to 25.2% just prior to the 1932 Ottawa conference.

British concessions agreed at this conference to Australia, Canada, New Zealand, South Africa, India, Newfoundland and Southern Rhodesia included the following: exemption with a few exceptions from the provisions of the Import Duties Act; imposition of increased duties on selected imports (mainly foodstuffs) from non-Empire countries; maintenance of the 10% *ad valorem* duty on selected products of special interest to Dominions; and maintenance of the exemption from quantitative regulation of meat imports from the Dominions. Concessions by the UK to the Dominions included the following: maintenance and in some cases increases in the margins of preference for imports from the UK; removal of certain crisis surcharges and restrictions applicable to imports from the UK; and adoption by Australia, Canada and New Zealand of the principle that protection from the UK should be granted only to industries with reasonable prospects of success.

The Ottawa agreements also covered inter-Dominion trade, with increased margins of preference for such trade. At the Ottawa conference, there was a decision that the same preferences agreed between the UK and the Dominions should be extended to the non-self-governing colonies. In 1934, restrictions on cotton and rayon imports to British colonies were introduced, a measure directed against cheap Japanese textile exports in the markets of Africa and the Far East. During the same period, the UK reached agreements with non-Empire countries (Argentina, Denmark, Sweden, Norway, Estonia, Latvia, Finland, Lithuania and Iceland) targeting protection of the share of UK exports, especially of coal, in their total imports. The agreements were progressively overtaken by wartime controls on imports from 1939 onwards.

The verdict is that these preferences were successful in maintaining the UK's share of exports to the countries concerned (with the notable exception of India). But there is less of a consensus as to its effects on the UK's position in world trade: competition with the UK for countries not covered by the agreements may have simply been deflected into other markets. For output and employment, the increased investment in housing is considered as having been more important.

France

As described above, France deployed tariffs and quotas, often agreed after bargaining with trade partners, as part of its initial response to the crisis of 1931. The objectives of France's negotiations with other countries under this heading included what was sometimes described as "trade equilibrium" to be achieved through stabilization of bilateral trade at agreed levels. For the purpose of tariff policy from 1928, French colonies were divided into two groups, "assimilated" and "non-assimilated". For the former group (French Indo-China, Madagascar, Réunion, French Guiana and certain islands in the Atlantic), exports to France were not subject to tariffs and imports were subject to the same tariff regime as the metropolitan power. For the latter group, a preferential tariff regime prevailed, with general exemption from French import quotas.

Germany

Germany had recourse to bilateral arrangements after the failure of other restrictions on external trade and payments to enable broad-based recovery. A major aim of such arrangements was some form of bilateral balance in trade between Germany and other countries. Like barter, many of these arrangements were designed to avoid actual payment of foreign exchange in trade and certain other cross-border transactions.

Of these arrangements, the clearing agreement has attracted particular attention because of its importance in subsequent periods of financial stress like the developing-country debt crisis of the 1980s. An agreement between Austria and Switzerland in 1931 brings out the principal features especially clearly. Austrians were to meet obligations incurred owing to purchases in Switzerland through payments in Austrian schillings into a clearing account in the National Bank of Austria, while Swiss importers of Austrian goods were to make payment in Swiss francs into a similar account in the National Bank of Switzerland. Austrians who had exported goods to Switzerland would then be paid in schillings by the Austrian National Bank, while Swiss exporters who had credits due to them in Austria would be paid in francs by the Swiss National Bank. Sums accumulating in the two accounts owing to imbalances in the countries' mutual trade could then be used for other purposes such as the servicing of debts; for example, sums due to accumulation of Swiss francs at the Swiss National Bank due to an Austrian export surplus could be used to meet payments due to Swiss holders of Austrian securities. Arrangements of this kind presupposed a certain level of balance in the trade of the two countries concerned. They were thus well designed for the objective of bilateral balance sought by Germany in its trade relations with partner countries.

Germany's recovery was due primarily to its programme of increased government expenditure. However, the positive effect of this programme on general living standards was limited owing to the levels of taxation and lending to the government with which it was associated.

Concluding remarks

Relative assessments of national performance in the 1930s are difficult owing to variations in historical contexts and in policy objectives. The initial policy responses of France and Germany to the crisis of 1931 support the view of those who consider that deflation and austerity are rarely effective for the achievement of economic recovery. It is difficult not to recall here medieval medicine's reliance on the use of leeches.

French reflation from 1936 had benign effects on unemployment and living standards but did not contribute to the development of the industrial muscle required for the looming prospect of another war with Germany. The recovery programme of Germany did enable the development of such muscle but only through a programme for increasing employment with only a limited impact on individual and family living standards.

Britain's economic performance avoided the extremes which characterized France and Germany. Unemployment was reduced but far from eliminated, especially in regions which had been unfavourably affected by the export depression that followed the return to an excessively high parity for the sterling in 1925. The UK's industry did prove equal to the task of supplying the war material required for a holding operation in the early years of the Second World War before the intervention of the military-industrial machines of the United States and the USSR eventually overwhelmed Germany and Japan.

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considerations. For example, relying on antiretroviral drugs from PPPs has resulted in conflicts with national authorities, generic suppliers and consumer interests, which have undermined health progress.

Donor-funded PPPs are typically unsustainable, eventually harming national health strategies, policies, capacities and capabilities.

PPPs may divert domestic resources from national priorities, and thus undermine public health due to financial constraints they cause. Such redirection of investment exacerbates health disparities, adversely affecting vulnerable groups.

Health workers often prefer to work for better-funded foreign programmes, undermining the public sector. PPPs can thus lead governments to abdicate their responsibilities for promoting and protecting citizens' health.

Partnership arrangements with the private sector are not subject to public oversight. Therefore, selecting private partners, setting targets and formulating operating guidelines are not transparent, they only aid in creating more scope for corruption.

PPPs are certainly not magic bullets to achieve the SDGs. While PPPs can mobilize private finance, this can also be achieved at lower cost through government borrowing.

Instead of uncritically promoting blended finance and PPPs, the international community should provide capacity-building support to developing countries to safeguard the public interest, especially equity, access and public health, to ensure that no one is left behind. *(IPS)* ❐

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