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Sluggish labour market recovery on the cards – ILO

Recovery of labour markets to pre-pandemic levels – in terms of hours worked, employment and labour force participation – will be weak through 2023, according to projections by the International Labour Organization. The slow recovery is expected to weigh on low- and lower-middle-income countries, whose workers have been the hardest hit since the pandemic broke out.

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Global labour market outlook deteriorates as pandemic persists

Labour market recovery is expected to remain weak, with key employment indicators yet to return to pre-pandemic levels, according to the International Labour Organization.

by Kanaga Raja

GENEVA: The International Labour Organization (ILO) has projected that total hours worked globally in 2022 will remain almost 2% below their pre-pandemic level, corresponding to a deficit of 52 million full-time equivalent jobs (assuming a 48-hour working week).

This is a downgrade from its earlier full-year forecast in May 2021 that had projected a deficit of 26 million full-time equivalent jobs.

In its *World Employment and Social Outlook: Trends 2022* report, released on 17 January, the ILO said global unemployment is projected to stand at 207 million in 2022, surpassing its 2019 level by some 21 million.

The COVID-19 pandemic dominated the global economy for a second year in 2021, preventing a full and balanced recovery of labour markets, it said. "The pace at which economic activity has recovered has depended largely on the extent to which the virus has been contained, such that the recovery is following different patterns across geographies and sectors."

Since the onset of the recovery, employment growth trends in low- and middle-income countries have remained significantly below those observed in richer economies, owing largely to the lower vaccination rates and tighter fiscal space in developing countries, said the ILO report. The impact has been particularly serious for developing nations that experienced higher levels of inequality, more divergent working conditions and weaker social protection systems even before the pandemic.

Overall, key labour market indicators in all regions – Africa, the Americas, the Arab States, Asia and the Pacific, and Europe and Central Asia – have yet to return to pre-pandemic levels. For all regions, projections to 2023 suggest that a full recovery will remain elusive, said the ILO. The European and Pacific regions are projected to come closest to that goal, whereas the outlook is most negative for Latin America and the Caribbean and for South-East Asia.

"All regions face severe downside risks to their labour market recovery that stem from the ongoing impact of the pandemic. Moreover, the pandemic is structurally altering labour markets in such ways that a return to pre-crisis baselines may well be insufficient to make up for the damage caused by the pandemic," said the report.

"Two years into this crisis, the outlook remains fragile and the path to recovery is slow and uncertain," said ILO Director-General Guy Ryder. "We are already seeing potentially lasting damage to labour markets, along with concerning increases in poverty and inequality. Many workers are being required to shift to new types of work – for example, in response to the prolonged slump in international travel and tourism," he added.

"There can be no real recovery from this pandemic without a broad-based labour market recovery. And to be sustainable, this recovery must be based on the principles of decent work – including health and safety, equity, social protection and social dialogue," said Ryder.

According to the ILO report, poverty has increased significantly among working people. The share of workers living in extreme poverty went up from 6.7% in 2019 to 7.2% in 2020, which equates to an increase of 8 million in the number of working poor.

Yet, the poverty increase has been much more pronounced among those who were not working in 2020 – a result of the large losses in global employment being concentrated among low-income households.

The ILO said new estimates suggest that, in 2020, an additional 30 million adults fell into extreme out-of-work poverty, comprising those who lost their job during the course of the crisis and those who did not have one to begin with.

Low- and lower-middle-income countries are estimated to have experienced the largest rise in working poverty rates between 2019 and 2020, with increases of 1 and 0.9 percentage points, respectively, which represent a significant reversal of previous trends.

"Prolonged lockdowns and travel bans, unthinkable before the pandemic, have disrupted supply chains, leading to negative consequences for direct and indirect employment linked to production networks."

Estimates suggest that 97 million jobs connected to supply chains were highly adversely affected in April 2021 by the drop in global consumer demand for manufactured products. Overall, nearly one in three jobs in manufacturing supply chains globally are likely, as a result of the pandemic, to have undergone termination, a reduction in working hours or payment, or other worsened conditions, said the ILO. The impact has been particularly pronounced in lower-middle-income countries that have long leveraged participation in production chains as a source of employment and growth.

Lower-middle-income countries saw the largest decline, 11.8%, in manufacturing employment, compared with 7.4% in upper-middle-income, 3.4% in low-income and 3.9% in high-income countries.

Labour supply disruptions have been widespread. With over 237 million confirmed COVID-19 cases worldwide as of October 2021 – a number that will continue to rise – illness has kept many from work, said the report. Others have stayed at home because physical workplaces have been closed owing to mandatory restrictions, for fear of contracting the virus or to take care of sick relatives.

These factors have induced staff shortages in location-tethered work, said the ILO, while widespread school closures have caused a rise in unpaid care work at home, the burden of which has disproportionately and largely fallen on women.

Trends in employment

According to the ILO report, labour market recovery will remain weak through 2023. Employment losses and a drop in labour income characterized 2021 as they had the year before.

It said that low- and lower-middle-income countries have fared the worst. Moreover, people who already faced a disadvantage in the labour market – such as women, youth, the elderly, and migrant workers – have experienced higher employment losses than have other groups.

Adjusted for population growth, employment, hours worked and labour force participation remained below pre-pandemic levels in 2021 and are expected to remain so until at least 2023, said the ILO.

In 2022, the ratio of hours worked to the population aged 15-64 is projected to remain 1.8% below its 2019 level; the corresponding projected ratios are 1.7% below the 2019 level for employment and 1.1% below the 2019 level for the labour force.

Assuming a 48-hour work week, the ILO said the decline in hours worked was equivalent to a deficit of about 125 million full-time jobs globally in 2021 relative to the fourth quarter of 2019. The employment deficit in 2021 was 92 million, and the decline in the labour force participation rate (LFPR) relative to 2019 levels corresponds to a labour force deficit of 67 million people.

Although the deficits are becoming smaller, they are projected to continue to be significant through 2023, said the ILO.

The global LFPR, having fallen by almost 2 percentage points between 2019 and 2020, is projected to recover only partially, to 59.4% by 2023, more than 1 percentage point below its 2019 level of 60.5%.

With employment recovery projected to be even slower than labour force recovery, the global unemployment rate is projected to remain above its 2019 level until at least 2023, said the report.

"The total number of the unemployed is projected to decline in both 2022 and 2023. Despite this progress, global unemployment is projected to remain stubbornly higher than its 2019 level of 186 million, at 203 million in 2023."

Furthermore, unemployment recovery is expected to be concentrated in high-income countries, which will account for half of the global decline in unemployment between 2021 and 2023 but contain only 18% of the global labour force.

Since the very beginning of the pandemic, lower-middle-income countries have fared the worst, said the ILO. They have seen the largest drop in the ratio of total weekly hours worked to the population aged 15-64, in the employment rate and in the LFPR. They are also seeing the slowest recovery. Poverty estimates suggest that eight out of 10 new poor in 2020 were in middle-income countries.

Policy questions

The damaging impact of the pandemic on jobs and livelihoods, if not quickly reversed, will run the risk of inducing long-term structural change with enduring adverse implications for labour markets, the ILO cautioned.

Uneven impacts of containment measures and the decent work deficits that they have contributed to are threatening the prospects for sustainable and inclusive economic growth, it said. "Temporary shifts in inflation rates and prices, or changes in the cost of capital relative to the price of labour, pose more risk of generating structural problems the longer they persist."

Moreover, said the ILO, the pandemic is exacerbating inequality. It has had a disproportionately adverse impact on women, youth, migrants and the elderly. By accelerating technological change, the pandemic has also revealed a deepening digital divide.

Intense and prolonged supply chain shocks are creating uncertainty in the business climate and raise the spectre of a reconfiguration of the geography of production in ways that will have serious implications for employment.

For the moment, most analysts agree that inflation rate fluctuations are a result of uneven patterns of opening up, pent-up demand, and supply chain bottlenecks, the ILO said. As economies settle, these drastic price swings are likely to stabilize. However, should there be a resurgence in the pandemic, or other crises related to climate change, for instance, the inflationary impact could become more structural in nature.

The ILO said that the pandemic has highlighted the extent to which crises can generate volatility that extends beyond capital markets to affect labour markets with devastating consequences, especially for the most vulnerable.

Thus far, the massive amount of investment required to revive depressed economies, together with a continuing shortage of workers in certain essential services, seems to have restored the bargaining power of low-income households in some countries. In the United States, for example, wages for low-income workers have increased at their fastest rate since before the 2008 financial crisis.

However, if inflation should become more endemic, there would be some risk that premature austerity measures would be implemented and hence the risk of a prolonged jobs crisis, said the report.

In some developed countries, the monetary response to the pandemic has fuelled asset prices, favouring capital owners and rent-seeking over productive investment and employment creation, it noted. It said it is a well-acknowledged fact that labour's share of national income has been dropping and that of capital increasing for the better part of three decades.

"The lack of a strong macro-prudential framework and faltering support for the real economy with stronger public investment have meant that in many advanced economies unconventional monetary policy has proved to be a boon for shareholders and house owners, pushing global stock markets to unseen heights, worsening wealth inequality and contributing to further market concentration." Not only does this endanger socio-political stability, but it also risks destabilizing economic growth by constricting wage-based household consumption, said the ILO.

Going forward, macro-policymakers face some difficult choices, the ILO said. On the one hand, runaway inflation may require policy to be tightened more quickly than it has been so far. At the same time, the recovery is asymmetric, and tightening would hit low-income households disproportionately.

In addition, monetary policymakers are constrained by the high level of (public) debt: raising interest rates prematurely or too fast is likely to force fiscal policymakers to scale down their support measures, thereby magnifying any tightening of monetary policy.

"What is most likely is that major central banks will scale down their asset purchases without raising rates at the expense of continuing stimulus of the private (banking) sector."

The ILO said fiscal policymakers are likely to become more parsimonious with their support as well, targeting it more selectively.

Nevertheless, rate rises are already happening, with consequences for exchange rates and capital flows, putting further pressure on the recovery, especially in low- and lower-middle-income countries, where the stagflation pattern is felt more strongly, it added.

Deepening inequality

Even before the pandemic, technological advances were shaping media, retail, health, social interactions, financial transactions and politics, said the ILO report. They were prompting labour substitution and creating new jobs, but also breaking up existing work into smaller gigs and fundamentally restructuring labour markets.

In certain sectors, technology adoption saves labour – for instance, when robots are deployed in manufacturing or when technology raises productivity so that fewer workers are required. In other sectors, such as the gig economy, rising numbers of people are relying on platforms to generate income.

In the midst of such changes, people who lack access to technology or the skills needed to engage with it, or who are victim to biases embedded in certain algorithms, are already facing a significant disadvantage, said the ILO.

"The pandemic is now accelerating these changes and deepening the digital divide within and between countries."

Those who have access to the technology and are able to work from home have fared better in the COVID-19 crisis than those in location-tethered professions. The former also tend to be in higher-skilled professions and/or in larger, formal enterprises – a trend that widens the gap along these vectors.

As education and training institutions closed and shifted to online learning, only those with access to the technology and the skills to use it – whether teachers, trainers or students – were able to engage effectively. For some students unable to effectively access online learning, what they have lost will have important implications for their ability to make the transition from education to work.

The ILO said economically vulnerable populations in developing countries, where the digital divide is more acute, have been particularly affected.

When it comes to the global labour market impacts of the pandemic, women, especially young women, have been among the worst affected, and their recovery has also been among the slowest.

Even in non-crisis times, decent work deficits are more pronounced among women. They tend to receive lower remuneration for the same work and frequently endure poorer working conditions than their male counterparts. They are also more susceptible to layoffs and face more barriers to re-entering the labour market than men do.

Analysis by UN Women and the UN Development Programme (UNDP) suggests that by 2021, approximately 435 million women and girls around the world would be living on less than $1.90 per day – and that 47 million would fall back into poverty as a result of pandemic-related shocks.

Given that women are more likely than men to spend resources on supporting their families and communities, an adverse impact on women's employment has a cascading impact on the welfare of households, communities and economies.

The ILO also said that before the onset of the pandemic, temporary employment as a share of total employment had been increasing over time, though not uniformly across sectors and countries. It noted that temporary employment rates are higher in low- and middle-income countries (just over one-third of total employment) than in high-income countries (15%).

But the nature of temporary employment varies between developed and developing countries, it observed. In the former, although it may be an entry point into a more permanent position, or a flexible and strategic means of entering and engaging in the labour market, temporary workers lack job security and regular incomes and do not always fulfil the eligibility requirements for access to social protection or employment protection. On the other hand, for workers in the developing world, temporary work often comes in the form of informal employment with little to no access to social protection systems and employment protection.

The ILO said temporary workers suffered job losses at a higher rate than non-temporary workers at the beginning of the pandemic, but most economies have since seen a rise in newly created temporary jobs. *(SUNS9496)*

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WTO entering into "dangerous" times?

Even as the WTO seeks to formulate measures to address the pandemic, developing-country members may struggle to get their voices heard in the decision-making process.

by D. Ravi Kanth

GENEVA: Despite the raging COVID-19 pandemic as well as growing calls from both inside and outside the WTO for a TRIPS waiver, members have continued to spar over the substantive issues concerning the WTO's response to the pandemic and the "way forward" in the negotiations on this crucial issue, said people familiar with the development.

Some members seem to be concerned that the Swiss ambassador to the WTO, Didier Chambovey, who is likely to be elected as the new chair of the WTO General Council (GC) soon, will also oversee the negotiations on the WTO's response to the pandemic as a facilitator, said people who asked not to be quoted.

Given the continued opposition of Switzerland to a TRIPS waiver as well as the controversial role that the Swiss trade envoy had played as the "friend of the chair" on the issue of special and differential treatment in the fisheries subsidies negotiations last year, it may be inappropriate to task him with this responsibility, said people who asked not to be quoted.

At a dedicated informal open-ended meeting on 27 January on the WTO response to the pandemic, the Sri Lankan ambassador Gothami Silva specifically urged the current GC chair, Ambassador Dacio Castillo of Honduras, to oversee the negotiations on the response, a call that was apparently endorsed by other trade envoys with varying levels of emphasis, said people who asked not to be quoted.

The GC chair, however, said that the work done till now – including the report submitted by the previous facilitator, former New Zealand trade envoy David Walker – must be part of the discussions. Castillo said "we all recognize the enormous effort, work and contributions that were made last year," calling on members to "draw upon and improve Ambassador Walker's text as well as their own proposals."

Notwithstanding the differences on both substantive issues and the way forward, he said he believed that "a path forward can still be found and that these divergences should not stop us from progressing."

He urged members to support the process that he was leading so far. "I appeal to you to engage in building up – not down – what we have before us. Let us work together to see how and where we can improve. For us to reach an acceptable outcome, everyone will have to be prepared to share the pain. It does not sound like we are in for rosy days ahead, but I know the pain will be worth the effort."

Several developing countries including India, Sri Lanka, Pakistan and Egypt had raised concerns over the Walker-led process to draw up the WTO response to the pandemic, and proposed that their draft ministerial statement be taken into consideration by Walker. However, he decided against this, reinforcing the countries' concerns that the Walker report can hardly be the basis for further work.

In contrast, several industrialized countries, led by the European Union, Canada on behalf of the Ottawa Group, New Zealand and others, said at the 27 January meeting that consultations should be based on Walker's text, said people familiar with the development.

Significantly, the United States apparently said at the meeting that Walker's report has no relevance now in his absence, said a trade envoy who asked not to be identified.

Growing support for TRIPS waiver

At the meeting, many members, including India, Indonesia, South Africa, the African Group led by Cameroon, and Pakistan, demanded resolution on the TRIPS waiver.

The waiver proposal seeks to suspend certain provisions in the WTO's TRIPS Agreement relating to copyrights, industrial designs, patents and protection of undisclosed information in order to ramp up the production of COVID-19 vaccines, therapeutics and diagnostics.

At the meeting, India reiterated its call for convening a virtual ministerial meeting on the TRIPS waiver.

Cameroon, on behalf of the African Group, said that "the TRIPS provisions on patent protection and related licensing solutions have failed to meet our needs", in what appears to be a criticism of the EU's alternative proposal relating to the use of the TRIPS Agreement's compulsory licensing provisions.

The African Group said that "no economic recovery will happen unless the health crisis is brought under control." It commended "all initiatives aimed at addressing vaccine inequity and therapeutics and we call on members to take exceptional decisions in these exceptional circumstances."

The African Group urged WTO members to constructively engage to reach an outcome on the waiver at the earliest. "We cannot indefinitely repeat the same arguments and prevent WTO to have a meaningful response on this very important issue," it argued.

In parallel, the African Group said WTO members "need to facilitate (i) the movement of inputs for the production of vaccines, (ii) the transfer of technology, (iii) an equitable distribution of vaccines, and (iv) access to essential goods for the foreseeable future." "To achieve this, we need to eliminate IP [intellectual property] barriers, export restrictions on certain goods and ultimately develop an appropriate response programme for future crisis situations."

Further, given the shortage of government revenues and the increase in debts, the African Group called on the WTO to "consider the discussions conducted with respect to debt restructuring and debt relief in other international fora, while the WTO could examine the balance-of-payment needs of members in view of providing meaningful support to the most affected sectors."

The African, Caribbean and Pacific (ACP) Group, coordinated by Jamaica, said Walker's draft text "can form the basis for further work in this area" but added that there is "much room for improvements. These are substantive, editorial and legal in nature. We are available to contribute to this objective."

The ACP Group also referred to its own proposal to "place more emphasis on the importance of food security in the WTO's COVID response initiative."

The Group also wanted to see "more work done on the issues pertaining to economic recovery such as scaling up manufacturing capacity in developing countries and LDCs [least-developed countries] in respect of items required to contain and prevent the spread of the virus, and to address its impacts."

While "our work here is effective in dealing with the issue of inequity in the availability of these items," it said that "more work is, therefore, needed in areas such as technology transfer, multilateral collaboration as well as technical assistance and capacity building."

The Group praised Walker's draft on services, suggesting that some elements found in Walker's text are similar to those in its own submission.

As regards the TRIPS dimension, it said "discussions are progressing on finding a mutually acceptable outcome on the TRIPS dimension of the WTO's COVID response, including the TRIPS waiver proposal, a critical aspect, and other IP-related issues."

"For us, we believe that the WTO's response must be comprehensive, include issues of interest to all members in a balanced manner, and the health dimension of the response must be integral to the outcome," the Group said.

On the way forward, it said "the process should be inclusive and transparent and all small group processes should be open to interested delegations." It requested that it be "included in sub-plenary activities aimed at arriving at a final outcome on the WTO's response to the pandemic."

It said that "the facilitator process will not only focus on stabilize, recover and rebuild, but also leaves us with a blueprint as it relates to how we respond to future international crises," calling for "patience from the membership as we work towards arriving at an outcome on this file that is balanced, effective, acceptable and meets the expectations of all members."

In their separate statements, India, Indonesia, South Africa and Sri Lanka said that language should be included on food security, policy space for food stocks, making pandemic-related subsidies non-actionable as well as improvements concerning the movement of short-term services providers.

The EU, members of the Ottawa Group led by Canada, and several South American countries supported Walker's draft text and called for it to be treated as the basis for discussion with little or no changes.

According to a statement posted on the WTO website on 27 January, WTO Director-General Ngozi Okonjo-Iweala applauded members for the "very constructive" discussion in which all delegations recognized the importance, for the credibility of the WTO, of agreeing on a meaningful pandemic response.

She pitched for "a holistic approach, both on the side of intellectual property but also on the side of the other trade-related aspects, for very sensible reasons, and this is that one cannot move without the other".

She thus appeared to be drawing a linkage between resolving the TRIPS dimension on the one side, and the trade-related aspects as outlined in Walker's report on the other.

On the trade-related angle, the DG said that most delegations see the facilitator's text as the basis to proceed despite the existing divergences.

She sought members' patience on the IP-related aspects of the pandemic response, on grounds that it is a "very difficult issue. If it were easy, it would have been resolved in the almost two years that this discussion has been going on. This small group process ... is going on but it is very tough. I have to say there is no easy road."

The EU concurred with the DG's statement that delivering a WTO response to the pandemic is an urgent priority which should be based on two equally important components: intellectual property and the trade-related elements.

The EU said that while a few delegations want to improve the Walker text, this does not undermine the broad support for proceeding on the basis of that text.

It said that the Walker text includes "two components: an action plan, which is looking at the future and is non-prejudicial; and a declaration – which is equally important as it includes valuable political commitments." It cautioned that if those "valuable political commitments" are not included in the final outcome, the perception would simply be that the membership is not able to provide a "here and now response".

It appears as a design that the DG's views – which seem to be largely based on the EU's proposals – are simultaneously vindicated by the EU, one person commented, alleging a kind of "capture of the WTO" by the major developed countries.

"Dangerous" implications of DG's statement

On the same day as the dedicated meeting on the WTO's response to the pandemic, the DG's statement issued at an informal General Council meeting on 25 January was circulated as a restricted document. The statement seems to reflect a "dangerous" turn as to how WTO business should be conducted.

Citing remarks made by the Philippine delegate, who had said that "we should not waste the opportunity of this pandemic to show that we can really be part of the solution to a global problem," the DG said, "If that is ready, let us harvest it. If another portfolio is ready, we harvest that."

She asked rhetorically, "[W]hat would such a process entail for us here in Geneva? We would have to work on all areas as I said, push all forward."

The DG maintained that she had said this to ministers "in a couple of the meetings that I have been involved – both the mini-ministerial hosted by Switzerland last week as well as the Ottawa Group hosted by Canada – 'please empower ambassadors here' so that we can come as close to a solution as possible".

Significantly, she said "negotiating in a large group may not be feasible. Let us do all of that in small groups."

She went on to say that "in fisheries subsidies and agriculture, we know there are specific, difficult issues that we now have to solve. And if we need a small group of ministers to come together and negotiate with each other – those who are most apart, to try and break this – we should not waste time or hesitate to do that," suggesting that ministers would be very willing to work in that way.

She highlighted the importance of "such a continuous dynamic process among ourselves, between ourselves and our capitals, between Geneva and the capitals, in order to bridge gaps, remove brackets, do what we can, we are perfectly capable of delivering some of the things that we have been working on."

"I have seen the possibility that with three or four ministers, we have seen it in action. They can actually negotiate with each other ... but when it is a large group, it is more difficult. But by Zoom, if it is just a small group, they can be able to break whatever impasse that we are encountering."

Commenting on the WTO response to the pandemic and the TRIPS waiver, she said "everybody knows that we have been trying in a small group format to try to break through and see if we can come to some agreement. It is not easy. But we are trying."

Claiming that there is no lack of transparency, the DG said that "Ambassador Sorli (Norway), our TRIPS Council Chair, has been briefed as well as the GC Chair on what we are trying to do. The whole idea is to make that kind of breakthrough with a small group and then see if there is something we can bring to a larger group and eventually it would come to the TRIPS Council."

She noted that "there are some who think that this suggestion is just to have something and then call a virtual Ministerial and maybe impose that solution on everyone." She then said, "No, this belongs to the TRIPS Council and should go back to the TRIPS Council. The TRIPS Council Chair is briefed on how this is progressing. We want to have transparency and to have people comment on whatever the proposed outcome is."

The DG assured members "that this will happen but there is no doubt that we are dealing with a tough issue. Perhaps we are inching forward on progress. We are not yet in a position to bring something out. But we keep our fingers crossed that that will happen".

She went on to comment on a point made by the GC chair, "since we have all agreed that response to the pandemic must be a comprehensive package that is made up of IP and trade and health issue."

It is common knowledge that the Trade and Health initiative has been proposed by the EU and the Ottawa Group.

The DG added that "I am also using the same approach on trying to make breakthroughs on fisheries subsidies and agriculture as well as with the WTO reforms."

For the sake of transparency, it is worth quoting a passage from the DG's statement that appears replete with "dangerous" messages: "Let me end by sharing something. I hope this will make you laugh when I say it so that we can end on a bit of a light note. One of my staff dug out from the archives of this organization the other day what I consider a gem. It was something from the External Intelligence Services of one of our GATT/WTO Members. It was a manual on how to carry out sabotage in enemy territory. It is in our archives so this is not made up. Most of it dealt with how to wreck infrastructure and industrial capacity. But one section dealt with how to undermine organizations.

"And here is what it says: If you want to undermine an organization, make speeches, frequently and at great length; when possible, refer matters to committees for further study and consideration; refer back to matters decided upon at the last meeting and attempt to reopen them; advocate 'caution' and urge others to avoid haste; and raise questions about the propriety of any decision. I do not know if any of these rings true to any of you but it rings very true to me coming here. So, if we do not want to play into the hands of this intelligence advice, we need to use this opportunity to really show that we are building up the organization and not undermining it."

[An observer has since pointed out that the quote seems to be from a manual prepared by the predecessor of the US Central Intelligence Agency, called the Office of Strategic Services (OSS). The OSS, headed by one William Donovan in 1944, prepared a document titled "Simple Sabotage Field Manual." In her statement, the DG seems to have paraphrased from page 28 of the Manual, under the title of "General Interference with Organizations and Production."]

In short, the coming days may witness some rather "dangerous" trends that may result in the developing countries being completely marginalized at the WTO and in the principle of consensus-based multilateral decision-making being eliminated once and for all. *(SUNS9503)*

South countries criticize "trust deficit" in WTO agriculture talks

The chair of the WTO agriculture negotiations has come under fire for proposing outcomes that give short shrift to developing-country priorities.

by D. Ravi Kanth

GENEVA: Many developing countries on 24 January apparently strongly criticized the chair of the Doha agriculture negotiations, Ambassador Gloria Abraham Peralta of Costa Rica, for creating unprecedented levels of "trust deficit", expressing their disapproval of her draft agriculture text issued last year, said people familiar with the development.

At a meeting of the Doha agriculture negotiating body on 24 January, members from the African Group, the African, Caribbean and Pacific (ACP) Group, India, Indonesia on behalf of the G33 coalition of developing countries, and South Africa alleged that the chair has violated the core provisions contained in WTO document TN/C/1 about how the chairs of the negotiating bodies in the Doha negotiations must discharge their duties, said people who preferred anonymity.

Raising the issue 20 years since that document was issued, many developing countries said they are alarmed about the manner in which the negotiating process is being conducted by the chair, who appears to have chosen to set aside all the rules contained in that document.

According to document TN/C/1 issued on 4 February 2002, norms were set for conducting the negotiations, including:

1. Chairpersons should be impartial

and objective, and discharge their duties in accordance with the mandate conferred on the WTO Trade Negotiations Committee (TNC) by ministers.

2. Chairpersons should ensure transparency and inclusiveness in decision-making and consultative processes taking into account the intergovernmental and member-driven character of the WTO;
3. Chairpersons should aim to facilitate consensus among participants and should seek to evolve consensus texts through the negotiation process.
4. In their regular reporting to overseeing bodies, chairpersons should reflect consensus or, where this is not possible, different positions on issues.
5. The WTO General Council should ensure that suitable arrangements are made to promote continuity in the work of the TNC during the transition from the current to the next Director-General.
6. The chairperson of the TNC should work in close cooperation with the chairperson of the General Council and the chairpersons of the negotiating bodies.

At the 24 January meeting, which was supposed to discuss the "way forward" in the Doha agriculture negotiations, many developing countries pointed to the chair's alleged repeated failure to adhere to the principles laid out in document TN/C/1.

The African Group and the ACP Group specifically referred to that document at the meeting.

Apparently, India and Turkey asked the chair to address the issue of "trust deficit" before discussing the way forward in the negotiations.

India asked whether the negotiating process is a chair-led or members-led process, suggesting that they have not gotten any response, according to people present at the meeting who asked not to be quoted. India said that it is not the time to look forward, adding that members are seriously concerned as to what has happened behind the scenes.

Indonesia also made a very sharp statement, saying that they cannot accept document TN/AG/50 (the chair's 23 November 2021 report to the TNC containing the draft chair's text on agriculture in an annex) as a basis for further negotiations unless it is thoroughly revised, said people familiar with the development.

No progress on PSH

Peralta has apparently shifted the goalposts due to her alleged "biased" position on the permanent solution for public stockholding programmes for food security (PSH) in developing countries.

In her report in document TN/AG/50, she had urged trade ministers to "consider revisiting" the mandated permanent solution for PSH at the WTO's 12th Ministerial Conference (MC12), but to defer the outcome on PSH to MC13.

Effectively, the chair appears to have permanently undermined the permanent solution for PSH despite demands for an outcome at MC12 by the G33 group of developing countries as well as the African Group, said people who asked not to be quoted.

A cursory glance at the draft text suggests that the chair has put the issues of interest to the Cairns Group of farm-exporting countries on a higher pedestal.

The chair's report covered seven main areas: (1) agriculture domestic support; (2) market access; (3) export competition; (4) export restrictions; (5) cotton; (6) the special safeguard mechanism; and (7) PSH, as well as the cross-cutting issue of transparency. Yet, a cursory glance at the draft text suggests that the chair has put the issues of interest to the Cairns Group of farm-exporting countries (of which Costa Rica is an active member), such as domestic support, market access and transparency provisions, on a higher pedestal compared with PSH, the special safeguard mechanism for developing countries and the long-pending cotton issue.

Peralta acknowledged in her report that the text "does not fully reflect their [members'] initial ambitions" but claimed that it is her "best attempt to put on the table a balanced and realistic package that could garner the support of all members for an outcome which all may be able to accept." She said she firmly believed that "this text would represent a significant step forward."

The chair chose not to mention the Doha agriculture negotiations under which she is currently chairing the agriculture negotiating body, although she did mention Article 20 of the WTO Agreement on Agriculture (AoA) which was the basis for the Doha agriculture negotiations. She also mentioned the UN Sustainable Development Goal No. 2 "on hunger, food security and nutrition and sustainable agriculture."

It is against this backdrop that India has apparently said that many proposals submitted by them were "nullified" by the chair, said people who asked not to be quoted, while Indonesia and the Philippines said the existing ministerial mandates cannot be reversed without prior ministerial approval.

At the 24 January meeting, Sri Lanka said it was not happy with the way the negotiations were being conducted so far, a concern that was also shared by Turkey, said people who preferred not to be quoted.

These countries appear to have said that the text issued by Peralta in document TN/AG/50 lacks credibility as it appears to be overly tilted in favour of the Cairns Group, the United States and the European Union while denying mandated outcomes on PSH and the special safeguard mechanism, said people who asked not to be quoted.

Some members such as India and Indonesia expressed their unwillingness to treat the chair's report (TN/AG/50) as a basis for any further discussions, said people who asked not to be quoted.

On their part, the Cairns Group members led by Australia and Brazil along with several other South American countries, as well as the US and the EU, defended the chair on her report.

Brazil said the chair is not responsible for the current state of affairs in the agriculture negotiations, suggesting that it is the members who are not offering compromises and engaging in serious negotiations.

The US and the EU, which did not show any energy on engaging in the negotiations and did not question the chair's text, made some nuanced statements that they would not like to focus on the text, suggesting that it is time for organizing meetings on technical work as there is no consensus on what members could do, said people who asked not to be quoted.

Canada and Costa Rica also apparently called for more technical discussions, while Brazil along with some other countries called for a holistic discussion on food security – which includes PSH, and to which Brazil also added sustainability issues.

The US, however, said it is interested in discussing the issues of market access and transparency.

It is worth recalling that the US had blocked an outcome on PSH at MC11 in Buenos Aires in 2017. Since then, it seems to not have changed its position on the PSH issue.

In short, it appears that a group of countries seem determined to deny an outcome on the mandated issue of finalizing the permanent solution for public stockholding programmes for food security. *(SUNS9500)*

WTO DG embarks on controversial mission to reform secretariat

The WTO Director-General is carrying out changes to the running of the organization's secretariat, although not everyone in the secretariat is said to be enthused about this reform push.

by D. Ravi Kanth

GENEVA: WTO Director-General Ngozi Okonjo-Iweala has apparently embarked on her new mission to reform the WTO secretariat, while seemingly dismissing the importance of "institutional knowledge" and "belittling" the directors who have apparently resigned due to her alleged "autocratic" governance, said people familiar with the development.

At a town hall meeting on 1 February, the DG apparently announced some of her new measures to reform the secretariat. They include the appointment of her chief of cabinet Bright Okogu as the new head of the secretariat's Council and TNC division that assists the WTO General Council and the Trade Negotiations Committee.

Okogu replaces Victor Do Prado, who has resigned apparently due to the DG's alleged "autocratic" functioning, said people familiar with the development.

Okonjo-Iweala also announced the appointment of Victoria Donaldson, currently Counsellor in the Delivery Unit, to oversee the work at the new "Transformation" division. Donaldson will be working with a representative of the consulting firm McKinsey & Company and the DG's office to bring about "transformation governance" at the secretariat, the DG apparently said at the town hall meeting.

Last year, the DG had informed WTO members about commissioning McKinsey to carry out a thorough review of the secretariat to make recommendations for its reform. Subsequently, she facilitated consultations between the representatives of McKinsey and WTO members.

During the town hall meeting, the DG also appears to have said that the secretariat is merely a "technical" outfit.

Interestingly, the word "technical" is not mentioned in Article VI of the Marrakesh Agreement Establishing the WTO that deals with the role of the secretariat. According to Article VI, the secretariat's functions are as follows:

"1. There shall be a secretariat of the WTO (hereinafter referred to as 'the secretariat') headed by a Director-General.

"2. The Ministerial Conference shall appoint the Director-General and adopt regulations setting out the powers, duties, conditions of service and term of office of the Director-General.

"3. The Director-General shall appoint the members of the staff of the secretariat and determine their duties and conditions of service in accordance with regulations adopted by the Ministerial Conference.

"4. The responsibilities of the Director-General and of the staff of the secretariat shall be exclusively international in character. In the discharge of their duties, the Director-General and the staff of the secretariat shall not seek or accept instructions from any government or any other authority external to the WTO. They shall refrain from any action which might adversely reflect on their position as international officials. The Members of the WTO shall respect the international character of the responsibilities of the Director-General and of the staff of the secretariat and shall not seek to influence them in the discharge of their duties."

McKinsey report

At the town hall meeting, while criticizing "misinformation" in the media about turmoil in the secretariat as well as over the McKinsey report, the DG appears to have expressed surprise that the issue concerning the McKinsey report seems to be coming out every time. She apparently said everything about the recommendations made by McKinsey had been shared with members and the staff several times.

Speaking to *SUNS* (*South-North Development Monitor*) on condition of anonymity, a member of the WTO's Committee on Budget, Finance and Administration told this writer that the DG did present the recommendations made by McKinsey last year but has not shared the full report so far.

The member sought to know why the DG seems to be hiding the report. Is it because McKinsey's analysis and recommendations cannot withstand scrutiny, or is it due to her efforts to "conceal" the contents of the report, the member asked.

Apparently, McKinsey had asked staff

members in a questionnaire as to "who the WTO's competitors were", revealing that it seems to have little or no clue about the WTO and its operations.

Commenting on the resignation of some directors from the secretariat and the possible consequent loss of "institutional memory", the DG said at the town hall meeting that though she did not want to speak on several things, she wanted to "correct the incorrect information" as well as the "misreporting" in the media. Coming down heavily on the directors' resignation, the DG apparently said that their departure is a "gift" to the organization which can be "treasured". She said they should have shared their institutional memory before they left the organization, while simultaneously suggesting that there is no such thing as institutional memory, said people familiar with her comments at the meeting. She also said that she was not informed about other directors who are retiring soon due to health or other grounds.

Okonjo-Iweala stressed that she wanted to bring "global transformation governance". However, she did not mention what would happen to the Delivery Unit that she created last year, said people who asked not to be quoted.

In a March 2021 notice, the DG had told the staff that the Unit would work directly with her as well as other units across the secretariat "to better support Members' efforts to reach concrete outcomes that will contribute to our work on growth, recovery and sustainable development and to a renewed and reinvigorated WTO."

She also said the core function of the Delivery Unit included working with the DG and in close coordination with divisions and WTO members to provide "solutions-oriented support and strategic direction aimed at enabling members to achieve deliverables for MC12."

With the creation of the new Transformation division, which will perform almost the same functions as the Delivery Unit, it remains unclear what the DG would do with the Unit.

Global carbon price

At the town hall meeting, the DG also announced that she would work on a "global carbon price" with the International Monetary Fund (IMF), and on "plastic goods and illicit trade" with the World Bank and the Organization for Economic Cooperation and Development (OECD), said people familiar with the development.

She apparently said that "nice" work is being done outside the WTO on illicit trade, subsidies and carbon pricing, said people familiar with her comments. She went on to emphasize that "we need to conclude negotiations and embark on exciting work happening outside".

Many of these climate-change-related trade initiatives are being openly pushed by the United States, the European Union, China, Canada on behalf of the Ottawa Group, Australia and New Zealand among others.

The DG said members are already discussing issues such as the "circular economy and plastics", adding that one of her deputies (Anabel Gonzalez) is working on the issues of illicit trade, trade and environment, and "TRIPS and health".

The DG's mention of "TRIPS and health" appeared to elicit some concern among members as to what she implied, as she had previously consistently mentioned the trade and health initiative proposed by the EU and Canada on behalf of the Ottawa Group. The issue of trade and health also figured prominently in the then facilitator David Walker's controversial report on the WTO's response to the pandemic.

Okonjo-Iweala seems to have brazened out the concerns expressed by a large majority of countries about her apparent penchant for non-mandated issues and her alleged flouting of the rules of a member-driven, rules-based intergovernmental organization.

At the town hall meeting, the DG also spoke about improving people's living conditions, citing the preamble of the Marrakesh Agreement. She said that she wants to focus on "people-centred" policies, a term akin to the US Trade Representative Katherine Tai's emphasis on "worker-centred" trade policies, said people who preferred not to be quoted.

Even as she has allegedly violated several other provisions in the preamble as well as the rules set out in the Marrakesh Agreement, the DG seems to selectively pick a line here and a line there to bolster her case on pursuing the non-mandated issues. "She always twists the facts and is economical about the truth," said a member who asked not to be quoted. *(SUNS9506)*

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The biggest killer of pandemic times: inequality

Inequalities are as extreme as they were at the peak of Western imperialism – with deadly consequences. But the solutions are within our grasp.

by Jayati Ghosh

The pandemic brought home to us a hard truth. Unequal access to incomes and opportunities does more than create unjust, unhealthy and unhappy societies – it kills people.

Over the past two years, people have died when they contracted an infectious disease because they did not get vaccines in time, even though those vaccines could have been more widely produced and distributed if the technology had been shared. They have died because they did not get essential hospital care or oxygen when they needed it, because of shortages in underfunded public health systems. They have died because other illnesses and diseases could not be treated in time, as public health facilities were overburdened and they could not afford private care.

They have died because of despair and desperation at the loss of livelihood. They have died of hunger because they could not afford to buy food. And they have died because their governments could not or would not provide the social protection needed to survive the crisis.

While they died, the richest people in the world became richer than ever – and some of the largest companies made unprecedented profits.

A recent paper from Oxfam shows the extent to which inequality has grown during this period of global calamity. The wealth of the 10 richest men has doubled, while 99% of humanity is poorer. And this increasing inequality has been associated with at least one death every four seconds, in some of the ways I have just described.

The hundreds of millions of people who have suffered disproportionately during this pandemic were already likely to be more disadvantaged. They were more likely to live in low- and middle-income countries, to be women or girls, to belong to groups experiencing social discrimination, to be informal workers. More likely, therefore, to be unable to influence policy.

In my own country, India, the number of dollar billionaires increased from 102 in 2020 to 142 in 2021. This even as much of the Indian population was devastated by the pandemic and associated livelihood collapses and the wealth share of the bottom half of the population fell to only 6%.

Yet, even in this period, state policies have operated to increase further the power of the wealthy over everyone else – by trying to prop up private "investor confidence" through more tax concessions, further enabling of private monopolies, further relaxation of rules for protecting the environment, and yet more labour-market deregulation destroying workers' rights.

Now it appears that inequality is not just killing those with less political voice – it is also killing the planet. Oxfam estimates that 20 of the richest billionaires in the world are on average responsible for the emission of 8,000 times as much carbon dioxide as one billion of the poorest people.

This may come as no surprise to those who have been watching the super-rich take extraterrestrial joyrides into space, at a cost of $55 million per ticket, in just one of the many ways in which their conspicuous consumption affects the ecosystem. As the rich in different countries have got even richer (and more politically powerful), they have also become more blatant and uncaring about their environmental impact – or happy to render lip-service rather than pursue real change in their patterns of investing and living.

This makes the strategy of privileging profits over people not just unjust but monumentally stupid and potentially catastrophic. Economies will not "grow" and markets will not deliver "prosperity" to anyone, no matter how powerful, on a dead planet.

Securing political backing

It is both essential and eminently possible to change course. This massive and deadly increase in inequality is not pandemic-driven but policy-driven. Another powerful description of recent trends, the *World Inequality Report 2022*, makes clear that inequality is a political choice.

That choice is made at both national and international levels. Globally, inequalities are as extreme as they were at the peak of Western imperialism in the early 20th century. According to the latter report, the global income share of the poorest half of the world's population is only around half what it was in 1820, before the great colonial divergence. Yet, within-country inequalities have grown even faster, with income and wealth inequalities exploding at the very top of the distribution and private wealth almost wiping out publicly held assets in many countries.

This obviously calls for systemic solutions: a greater role for public ownership and public provision in meeting essential basic needs and furnishing social services; an end to the privatization and commercialization of knowledge through the regime of intellectual property rights; and much more extensive and effective regulation of private activity so as to serve common social goals. This requires reversal of the disastrous privatizations of past decades – of finance, knowledge, public services and utilities, of the natural commons.

There are also to hand fiscal policies, such as taxation of the wealthy and of multinational corporations, which only require sufficient political will. Undoing the structural inequalities of gender, race, ethnicity, caste and so on, which feed into the economic disparities, will be more difficult but is also essential, and strategies are again available which have been proposed in different contexts.

So, inequality is deadly – but the solutions are within our grasp. It can still be tackled, with greater collective imagination and public mobilization. Without it, we are all dead – and perhaps well before Keynes's "long run".

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Inflation paranoia threatens recovery

Raising interest rates is no panacea for countering inflation but may instead bring economic and social harm, caution *Anis Chowdhury* and *Jomo Kwame Sundaram*.

Inflation hawks are winning the day. The latest "beggar thyself" race to raise interest rates has begun. This ostensibly responds to the spectre of runaway inflation which supposedly retards economic growth and progress, and thus threatens central bank "credibility".

The "one size fits all" policy of raising interest rates to contain inflation is being touted again, the world over. This will surely kill national efforts to revive economies reeling from COVID-19 pandemic slowdowns.

Central banks in many emerging market and developing economies (EMDEs) – such as Brazil, Russia and Mexico – began raising policy interest rates right after inflation warning bells were set off after mid-2021. Indonesia and South Africa have since joined the bandwagon.

International Monetary Fund (IMF) Managing Director Kristalina Georgieva has warned that US interest rate rises would "throw cold water" on global recovery, especially hurting struggling emerging markets. An earlier IMF blog had urged EMDEs to prepare for earlier-than-expected US interest rate hikes. The Fund has lowered its growth projections as the inflation bogey induces monetary and fiscal tightening.

Inflation paranoia

Inflation hawks denounce price increases, claiming – without evidence – that they impede growth.

Former World Bank chief economist Michael Bruno and William Easterly refuted these popular, but false, prejudices. Using 1962-92 data for 127 countries, they found, "The ratio of fervent beliefs to tangible evidence seems unusually high." They also found extremely high inflation – over 40% yearly – mainly due to very exceptional circumstances, e.g., Nicaragua after the Sandinista takeover.

Bruno and Easterly concluded that inflation under 40% did not tend to accelerate or worsen. They concluded that "countries can manage to live with moderate – around 15-30 percent – inflation for long periods".

Bank economists Ross Levine, Sara Zervos and David Renelt confirmed a negative inflation-growth relationship to be exceptional and due to a few extreme cases.

Rudiger Dornbusch and former IMF Deputy Managing Director Stanley Fischer came to similar conclusions. They too found moderate inflation of 15-30% did not harm growth, emphasizing "such inflations can be reduced only at a substantial short-term cost to growth".

Citing IMF research, Harry Johnson also argued that while very high inflation could be harmful, there was no conclusive empirical evidence of the alleged inflation-stagnation causal nexus.

Even monetarist guru Milton Friedman acknowledged, "Historically, all possible combinations have occurred: inflation with and without development, no inflation with and without development."

Thus, the Fund and the Bank have no sound bases for promoting draconian policies to eliminate inflation above, say, 5% by citing a few exceptional cases of very high, runaway inflation and low growth.

Inflation misdiagnosed

Friedman's sweeping generalization that "inflation is always and everywhere a monetary phenomenon" ignored other factors possibly contributing to inflation. Without careful consideration of inflation's causes, the same old policy prescriptions are likely to fail, but not without causing much harm.

Prices tend to rise as demand outstrips supply. This can also happen when demand rises faster than supply, or if demand does not decline when supply falls.

The IMF attributes the current inflationary surge to supply chain woes, higher energy prices and local wage pressures. While demand has been boosted by pandemic relief and recovery measures, where existent, supply shortages remain vulnerable to disruptions.

Rising food costs are also pushing up consumer prices. Extreme weather events – droughts, fires, floods, etc. – have affected food output. More commodity price speculation – e.g., via indexed futures – has also raised food prices.

Although wages have risen in some sectors in some countries, economy-wide wage-price spirals are unlikely. Employment suffered during the pandemic while unionization is at historically low levels. Labour's collective bargaining powers have declined for decades, especially with technological change, casualization and globalization lowering the labour income share of gross domestic product (GDP).

As the profit share of income continues to rise, rising mark-ups and executive remuneration also push up prices. With more market monopoly powers, price gouging has become more widespread with the pandemic.

Understanding what causes particular prices to rise is critical for planning appropriate policy responses. Although devoid of actual diagnoses, inflation hawks have no hesitation prescribing their standard inflation elixir – raising interest rates.

Raising interest rates may help if inflation is mainly due to easier credit fuelling demand. But tighter credit is unlikely to effectively address "supply-side" inflation, which typically requires targeted measures to overcome bottlenecks.

Interest rates harm

Higher interest rates increase borrowing costs, squeezing investment and household spending. This hits businesses, hurting employment, incomes and spending, and can result in a vicious downward spiral.

Higher interest rates also increase governments' debt burdens, forcing them to cut spending on public services including healthcare and education. Incredibly, elevated interest rates – harming investments, jobs, earnings and social protection – supposedly benefit the public!

The adverse spillover impacts of rising interest rates are also considerable. Raising rates in major advanced economies weakens EMDE capital inflows, currencies, fiscal positions and financial stability, especially as sovereign debt has ballooned over the last two years.

Indeed, the interest rate is a blunt weapon against inflation. How can raising interest rates curb food or oil price increases? While supply blockages persist, essential consumer prices will rise, even with high interest rates. Higher interest rates may even aggravate inflation as businesses cut investment spending. Thus, supply bottlenecks, especially of essential goods, are likely to be more severe, pushing up their prices.

Most people are indebted, with the poor often borrowing to smoothen consumption. Thus, the poor are hurt in many ways: losing jobs and earnings, coping with less social protection, and having to borrow at higher interest rates.

Hence, the standard medicine of higher interest rates has massive social costs. Meanwhile, the principal beneficiaries of using higher interest rates to lower inflation are rich net creditors and financial asset owners.

Toxic prescription

Premature reversal of expansionary fiscal policy has been largely due to debt hawks' successful fearmongering. Thus, debt paranoia nipped in the bud the "green shoots" of robust recovery following the 2008-09 global financial crisis.

In the early 1980s, inflation paranoia led to interest rate spikes, triggering debt crises, stagnation and lost decades in much of the world, especially developing countries. Now, inflation hawks are poised to derail global recovery, stop adequate climate action and otherwise undermine sustainable development.

Policymakers the world over, but especially in developing countries, must reject the inflation hawks' paranoid screeches. Instead, they must identify and address the sources, causes and nature of the inflation actually faced, and then take appropriate measures to prevent inflation accelerating to harmful levels.

There are a host of alternative policy measures available to policymakers. They must reject the lie that they have no choice but to raise interest rates – widely recognized as a blunt weapon with deadly "externalities".

While all available policy options may involve trade-offs, policymakers must seek and achieve socially optimal results. This requires robust, resilient, green and inclusive recoveries – not fighting quixotic windmills of the paranoid mind. *(IPS)*

***Anis Chowdhury**, Adjunct Professor at Western Sydney University (Australia), held senior United Nations positions in New York and Bangkok. **Jomo Kwame Sundaram**, a former economics professor, was UN Assistant Secretary-General for Economic Development, and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought in 2007.*

More progressive taxation needed for social progress

Jomo Kwame Sundaram makes the case for equitable tax reforms to finance essential spending and redress economic disparities.

Governments must innovatively develop progressive means to finance the large-scale social spending needed to improve lives and livelihoods, especially following the COVID-19 pandemic.

More egalitarian tax reforms should enable governments to equitably mobilize desperately needed revenue to advance sustainable development for all.

To respond to the pandemic and its economic fallout, massive resource mobilization has been necessary to protect people's health and livelihoods, stem economic decline and stagnation, and ensure sustainable progress.

Fiscal policy involves governments harnessing and deploying resources. But modes of state financing and spending impact economic inequalities. Monetary policy measures can be supportive, but they cannot replace fiscal efforts.

However, the economic slowdown requires much more state spending, largely financed by sovereign debt, i.e., government borrowing. This has undoubtedly been necessary to deal with the pandemic, but fiscal policy should be consistently counter-cyclical: expansionary to counter downturns, and conservative in good times.

Rich countries have generally been fiscally bolder by running deficits to spend since the global financial crisis, but especially in response to the pandemic. Massive economic relief and recovery packages have tried to protect incomes and failing businesses, albeit unevenly.

Turning to taxation

Regressive colonial taxes were levied on subject populations, but tax incidence became more progressive after independence in most though not all post-colonial societies.

In the last four decades, however, most governments have reformed tax policies for the worse, reducing tax revenue shares and shifting the tax burden from the better-off to the public at large.

Policy advice from international financial institutions and political pressure from powerful elites and foreign investors have reduced taxation's progressive aspects. With Trump, laughable arguments such as Arthur Laffer's curve – without any sound theoretical or empirical bases – were invoked to justify regressive tax reforms.

Rich corporations and individuals paid less and less in direct taxes, as the public paid more and more in indirect taxation, typically on consumption. Most countries still tax income, but tax rates on corporate income, high-income individuals, property and inheritance have declined in most countries in recent decades.

The wealthy's assets are mainly held as stocks, shares and real property. Their incomes are mainly from such assets, rather than earned as wages. Taxing excess profits and wealth can raise considerable revenue to finance development policies and measures, besides narrowing gaps between the beneficiaries and others.

Instead, wealth is typically taxed at low rates, while huge loopholes allow such assets to be hidden, typically abroad. Many trillions are hoarded in often secret accounts in tax havens, both off- and on-shore. All this has accelerated wealth concentration and economic inequality.

Making taxation more progressive

Governments mainly get fiscal resources from tax revenue or by borrowing. Taxation is undoubtedly the most sustainable, effective and accountable means for states to raise funds. Progressive taxation and government expenditure can both reduce inequalities, albeit in different ways.

A few individuals and businesses are reaping huge rewards from the pandemic while most have been hurting. Many billionaires have reportedly become much more affluent, with the 10 richest more than doubling their wealth from $700 billion to $1,500 billion since March 2020! Windfall taxes at high rates are easily justified. After all, most who have gained much owe their newfound wealth to circumstances largely not of their own making.

Windfall incomes or profits during the pandemic can be ascertained by comparing recent with previous profits. Such gains should be heavily taxed for the same reason.

Wealth taxation has diminished significantly in recent decades due to successful lobbying by the rich. The introduction or reintroduction and extension of progressive wealth taxation will raise considerable revenue if loopholes can be closed, not only domestically but also internationally.

Perhaps even more than income taxation, wealth taxes are a progressive means to raise revenue. They also have greater potential to address other inherited privileges and inequalities, including those associated with culture, lineage, ethnicity and gender.

Government spending – including subsidies and relief measures – should not benefit businesses paying taxes abroad or not paying them at all. Many companies resort to tax havens and other loopholes to pay less tax where they operate and profit from.

Tax systems should get much more from those most liable and able to pay. Concretely, this should include:

- Introducing or increasing taxes on assets like real property, wealth, inheritance and investment income ("capital gains").
- Raising the rates and progressivity of personal and business income taxes.
- Shifting relative reliance from indirect taxes – e.g., on value-added or sales or consumption – which tend to be regressive, to more progressive direct taxation.
- Cracking down hard on tax avoidance and evasion – especially by the wealthy, however politically influential.
- Enhancing international cooperation on taxation to enhance and distribute tax revenue progressively.

Such systemic reforms are essential for progressive fiscal redistribution, e.g., by financing sustainable development in the medium and long term. Of course, an immediate priority in the near term is financing a forward-looking recovery from the pandemic and its aftermath.

Coordinating fiscal policy

Governments are expected to raise enough revenue to finance the services, goods, facilities and infrastructure they are supposed to provide, i.e., to fulfil public expectations of citizens' entitlements.

The popular presumption is that tax incidence is not only progressive but has also become increasingly so, although the converse is more likely to be true.

Taxation is widely expected to reduce, if not remedy, inequalities. If well-designed for effective implementation and enforcement, the international record suggests this is achievable. In line with the public's progressive redistribution expectations, the government is expected to be Robin Hood-like, i.e., to take from the rich to give to the poor.

Of course, whether taxation is progressive depends on how it is collected and spent. Hence, tax and spending policies should be considered together. But it is now clear that some pandemic relief packages have mainly benefited influential businesses, with crumbs going to the most needy.

International cooperation is needed for appropriate tax reforms in this age of financial globalization, and to prevent increasing capital outflows from developing countries. For the time being, minimizing tax evasion depends on equitable and effective international cooperation on terms fair to all, rather than conditions imposed by the rich countries, as has been the case. *(IPS)*

***Jomo Kwame Sundaram**, a former economics professor, was United Nations Assistant Secretary-General for Economic Development, and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought in 2007.*