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Differences aplenty on eve of MC12

With less than a week to go before the WTO's 12th Ministerial Conference (MC12), member states remained far apart in key areas of negotiation – including fisheries subsidies, farm trade, WTO reform and the pandemic response – raising the likelihood of last-ditch talks during MC12 itself aimed at securing substantive outcomes.

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131 Jalan Macalister
10400 Penang, Malaysia
Tel: (60-4) 2266728/2266159
Email: twn@twnetwork.org
Website: https://twn.my

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Founding Editors: Chakravarthi Raghavan (1925-2021); Martin Khor (1951-2020)

Editor: Lean Ka-Min
Editorial Advisor: T. Rajamoorthy

DG pushes five unresolved MC12 deliverables to ministers

With deep differences on key issues persisting among member states in the run-up to the WTO's 12th Ministerial Conference, it may be left to the trade ministers themselves to try to hammer out decisions during the meeting.

by D. Ravi Kanth

GENEVA: The World Trade Organization's Director-General Ngozi Okonjo-Iweala appears to be adopting the practice of brinkmanship by tossing the five major unresolved deliverables to ministers to decide at the WTO's 12th Ministerial Conference (MC12) which will take place on 12-15 June, said people familiar with the development.

Following a series of small-group/ "green room" meetings held in early June, it seems to have become almost clear that there are substantial divergences/ gaps on the five deliverables: the WTO's response to the pandemic, fisheries subsidies, agriculture, a decision on the food purchases made by the World Food Programme (WFP), and proposed WTO reforms.

A large number of countries also seem to have been kept in the dark on the DG-led meetings. Members will have greater clarity from the special WTO General Council meeting to be held on 7 June, said a trade envoy who asked not to be quoted.

Earlier, the DG and the General Council chair, Ambassador Didier Chambovey of Switzerland, had suggested that if there are too many gaps in the five deliverables, then they may not be negotiated at MC12 due to the fear that the conference could collapse on one issue or another. However, Okonjo-Iweala appears to be going ahead with the square-bracketed texts (indicating lack of consensus) in all the areas to pose them to the ministers to decide at the ministerial meeting, said people who asked not to be quoted.

In a sign of the complexities involved in the negotiations, the United States stormed out of a meeting on the WTO's response to the pandemic on 3 June (see following article), and has also warned that it is difficult to negotiate on fisheries subsidies due to the alleged carve-outs on special and differential treatment (S&DT) for developing countries (see below).

With respect to proposed WTO reforms, the alleged US opposition to paragraphs in the draft MC12 outcome document on this topic raises serious questions as to whether the reforms will be carried out according to the "foundational principles of the WTO" and under the auspices of the General Council (see following article). It appears that the US and the EU want to "hive off" the negotiations on the WTO reforms, saying they want the General Council to only "oversee" discussions and not directly administer them, said people familiar with the series of meetings since 3 June.

Against this backdrop, it would not be inappropriate to suggest that if MC12 fails to secure significant results, then the blame could be apportioned between the US and the EU, said several people who asked not to be quoted.

Nonetheless, the DG is allegedly making her best efforts to issue "Plan B" outcomes in some or all deliverables if MC12 fails to arrive at decisions based on the negotiations over the past six months, said people who asked not to be quoted.

Fisheries subsidies

Amidst sharp divergences between big subsidizers like China, the EU, the US, Canada, Japan and South Korea on the one side, and a large number of developing countries on the other, on the controversial draft text put forward by the chair of the fisheries subsidies negotiations, an agreement at MC12 appears increasingly difficult to achieve.

At a "green room" meeting of select trade envoys on 6 June, the US apparently said that it is difficult to negotiate the proposed fisheries subsidies agreement due to the carve-outs being demanded by developing countries, while the EU maintained that the “mindset” to negotiate is not there, said people who asked not to be quoted.

The US seems irked by calls for capping subsidies, the extension of specific flexibilities for artisanal fishermen to carry out their fishing activities up to the Exclusive Economic Zone (EEZ) of 200 nautical miles, and a 25-year period for special and differential treatment, said several people who asked not to be quoted.

At the meeting, several members like Peru, Indonesia and other developing countries seemed to have called for capping subsidies, a proposal that is apparently not acceptable to the big subsidizers such as the EU and the US.

Meanwhile Thailand seems to have made a call for limiting the duration of S&DT to 5-7 years, a call that was in line with what the EU and other countries had proposed over the last seven days, said people familiar with the developments.

In contrast, India, Indonesia and members from the African Group called for appropriate and effective S&DT for a period of 25 years to ensure policy guidance for their fishermen.

In a statement made at an informal open-ended meeting on 3 June, India said that the chair’s draft fisheries subsidies agreement did not take its proposals on board while allowing the big subsidizers to continue with their subsidies. It added that the draft fails to address the United Nations Sustainable Development Goal 14.6 as it does not underscore the need for bigger cuts in subsidies from the big subsidizers, resulting in the “polluter pays” principle being given short shrift.

The UN SDG 14.6 states: “prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, and eliminate subsidies that contribute to IUU [illegal, unreported and unregulated] fishing, and refrain from introducing new such subsidies, recognizing that appropriate and effective special and differential treatment for developing and least developed countries should be an integral part of the WTO fisheries subsidies negotiation.”

“Keeping with the spirit of these principles”, India said it is committed to concluding the fisheries subsidies negotiations as long as they provide for balancing current and future fishing needs to diversify its fisheries sector, addressing the needs of millions of poor fishermen, preserving policy space for equitable growth in fishing capacities, and modernizing its fleet in future.

“Accordingly,” said India, “we have advocated the need for appropriate and effective special and differential treatment under all three pillars (as per the UN SDG 14.6) to protect the livelihoods of poor fishermen, address food security concerns and provide future policy space for all maritime zones including high seas. However, we see that our concerns still remain in current text and the sustainability of fish stocks has been put on the back burner.”

> India said that the draft fisheries subsidies agreement fails to address the United Nations Sustainable Development Goal 14.6 as it does not underscore the need for bigger cuts in subsidies from the big subsidizers.

In a separate document issued on 6 June, India noted that in the chair’s draft text, “on one hand, there are very liberal and non-effective provisions in Article 5.1 to accommodate flexibilities for distant water fishing nations, on the other hand, developing countries have not been provided with appropriate and effective S&DT under Article 5.4.”

India said that “our understanding is that text of Article 5 [which concerns overcapacity and overfishing] will keep the asymmetries as such with those who have already created over-capacities and adversely affect developing countries with no scope for future policy space to catch up.”

“Therefore, we reiterate our need for appropriate and effective special and differential treatment under all three pillars,” India said.

Explaining the S&DT provisions under Article 5.4, India said that there are three elements: “the transition period (Article 5.4(a)), de minimis threshold (Article 5.4(b)(i)) and geographical limit for low-income or resource-poor or livelihood fishing or fishing related activities (Article 5.4(b)(ii)).”

“For us, all the three elements are an integral part of the S&DT package and through these three elements together, we seek to balance the rest of the obligations/ flexibilities/carve outs under Article 5.”

Needless to say, India said, “in case any of these elements is removed/not agreed to, the delicate balance is disturbed and the whole article will collapse, thus reducing our hard work till now to a nought.”

India also highlighted that “the transition period of 25 years under Article 5.4(a) is a must-have for us.”

“Without agreeing to the 25-year transitional period, it will be difficult for us to finalize the negotiations as we need this policy space to develop our fisheries sector,” India stressed.

India said “this is a transition period and not a permanent carve-out” and “it is also important to note that India’s fisheries subsidies are quite low in comparison to our number of fishermen and production.” Based on UN Food and Agriculture Organization (FAO) statistics on the number of fishermen, India said its “per capita subsidy is only $26 per annum and for production, the subsidies are only $29 per unit of MT production. These figures are far less than most of the developed countries.”

India further argued that “to bring balance to the text of Article 5, the exemption for low-income or resource-poor or livelihood fishing should be up to EEZ (200 nautical miles)”, as opposed to the chair’s textual proposal of 12 nautical miles as the limit for artisanal fishermen in developing countries.

“Regarding the S&DT under the pillar of Unregulated and Unreported fishing (Article 3.8), we seek exemption from prohibition in respect to non-industrial vessels up to 12 nautical miles and a transition period of 7 years for fishing in EEZ,” India said.

“Similarly, under the overfished stocks (Article 4.4), we seek exemption for low-income, resource-poor or livelihood fishing up to 12 nautical miles and transition period of two years from the time of declaration of stock,” India added.

Indonesia also made a strong statement underscoring the need for S&DT provisions, particularly extending the limit for fishing activities of its small, resource-poor and livelihood fishermen to 200 nautical miles (EEZ) in its hundreds of islands. *(SUNS9590)*

US storms out from discussions on WTO response to pandemic

Prospects of reaching agreement on the WTO's response to the coronavirus pandemic are mired in uncertainty following difficult talks that saw, among others, a dramatic walkout by the US delegation.

by D. Ravi Kanth

GENEVA: The United States apparently stormed out of a meeting on the WTO's response to the pandemic on 3 June in fierce opposition to the inclusion of language that a solution on TRIPS flexibilities will apply automatically to future pandemics, health emergencies and other crises, placing the outcome on this major issue in the balance, said several people who asked not to be quoted.

The US is also joined by the EU, though Brussels said that it is willing to engage in negotiations despite its serious concerns.

Washington, however, made the language on automaticity a "red line" and walked out of the meeting, said several people who asked not to be quoted.

In fact, it appears that the US is somewhat ready to block several key decisions concerning the WTO response to the pandemic as well as the language on proposed WTO reforms, said people who asked not to be quoted. The US has also expressed serious reservations on agriculture, particularly on the DG's draft decision on the removal of export restrictions on purchases made by the World Food Programme (WFP).

Automaticity

The US walkout took place during a small-group meeting on finalizing the text for MC12 on the WTO's response to the pandemic. The facilitator for these talks, Ambassador Dacio Castillo of Honduras, had to suspend the meeting as a result.

Earlier, the African, Caribbean and Pacific (ACP) Group and several other developing countries including Sri Lanka, Pakistan, Egypt, South Africa and Tunisia had proposed "reaffirm[ing] the need for a solution on IP [intellectual property] in addressing the difficulties faced by developing countries in accessing TRIPS flexibilities to apply automatically to future pandemics, health emergencies and other crises."

Castillo acknowledged that he had to "suspend the drafting group session following a heated debate on the question of balance."

Apparently, before the start of the meeting, the EU had informed the facilitator that it was "unhappy with the balance of the text that was emerging." The facilitator seems to have advised the EU to "revert to this issue after the consideration of all the paragraphs before us given the sensitivity of the matter," said people familiar with the development.

The facilitator apparently told the EU that his intention was "to complete the consideration of the texts today or tomorrow which would have allowed for a proper assessment of the overall balance," said people familiar with the development.

Apparently disregarding the facilitator's statement, the EU went ahead with its concerns about "the balance of the text including its assessment of the progress being made on issues of importance to it and what was being achieved in other areas – including on intellectual property."

According to several people who spoke to the *South-North Development Monitor* (*SUNS*), the EU's comments "triggered a heated debate including about the status of the automatic TRIPS trigger mechanism for future pandemics."

As to whether this was a "red line", the facilitator said "one delegation said it was, but that it was ready to engage in a discussion." However, "given this response, another delegation indicated that it could no longer continue its participation in these negotiations", the facilitator added, without naming the US.

The facilitator is understood to have informed members that "this is a very serious situation," hoping that "everyone appreciates what is at stake."

He cautioned members that "if this [situation] persists, we risk losing not only a WTO response to the pandemic, including the TRIPS waiver – but this could have broader implications for other MC12 issues, for the conference itself and the credibility of this organization."

Subsequently, in an apparent attempt to accommodate the US concerns on automaticity, Castillo on 7 June introduced a compromise text on this issue, said people who asked not to be quoted.

The proposed new text states: "We reaffirm the need to review and build on all the lessons learned and the challenges experienced during the COVID-19 pandemic, to build effective solutions in case of future pandemics including on intellectual property, technology transfer, export restrictions, trade facilitation, services, food security and regulatory cooperation in an expeditious manner."

It appears that the US has not yet come back to the negotiating table on the facilitator's compromise text, said people familiar with the discussions.

In parallel with the talks on the trade-related aspects of the WTO pandemic response being facilitated by Castillo, discussions are also ongoing on the other facet of the response, namely, on intellectual property/TRIPS. During a 6 June "green room" meeting on the TRIPS COVID-19 draft outcome document, the discussions were conducted by DG Ngozi Okonjo-Iweala and her deputy Anabel Gonzalez, while the chair of the TRIPS Council, Ambassador Lansana Gberie of Sierra Leone, remained a silent spectator, said people who asked not to be quoted.

Yet, the DG and her deputy found it difficult to close the gaps among the members, particularly in light of the continued aggressive stance adopted by the United Kingdom and Switzerland, which challenged the draft agreement on several grounds with their textual suggestions, said people familiar with the discussions (see following article).

WTO reforms

Discussions on another proposed deliverable for MC12, WTO reforms, are also beset by differences among the membership.

At a meeting held by the General Council chair, Ambassador Didier Chambovey of Switzerland, to discuss the MC12 outcome document – which is to include text on WTO reforms –

the US and the EU opposed language proposed by the chair which states that the reforms will be based on "the foundational principles of the WTO", as well as inclusion of developmental issues raised by a large number of developing countries.

Chambovey is understood to have proposed the following language: "We acknowledge the need to take advantage of available opportunities, address the challenges the WTO is facing, and ensure the WTO's proper functioning. We commit to work towards necessary reform of the WTO. While reaffirming the foundational principles of the WTO, we envision reforms to improve all its functions. The process should be open, transparent, inclusive, and must address the interests of all members, including developmental issues. The General Council will oversee the process, review progress and consider decisions, as appropriate, to be submitted to the next Ministerial Conference."

In what appears to be an attempt by the US and the EU to erase any mention of the Marrakesh Agreement Establishing the WTO or the "foundational principles of the WTO" in discussing reforms, Washington and Brussels seem to be leaving no stone unturned in their effort to pursue reform by turning the WTO on its head, said people familiar with the development. *(SUNS9590)*

UK, Switzerland attempt to limit scope of COVID-19 TRIPS decision

The efforts at the WTO to ease intellectual property constraints on access to COVID-19 medical supplies are coming up against proposals by the UK and Switzerland that would effectively scupper a meaningful outcome.

GENEVA: Since the start of text-based negotiations on the WTO Director-General's text (DG's text) on the COVID-19 TRIPS decision (the Decision), the United Kingdom and Switzerland, with European Union support, have been making constant attempts to limit the scope of the Decision.

Working in concert, a series of amendments have been proposed to the DG's text to, firstly, limit the scope of the Decision and additionally narrow the scope of the only waiver in the text. Secondly, to limit application of the Decision specifically to the acts of production, exportation and importation, without explicitly mentioning the act of "using" for domestic purposes. Thirdly, to nullify the existing flexibility related to protection of undisclosed information. Fourthly, to impose an obligation to notify the WTO's TRIPS Council prior to the shipment of vaccines produced under the Decision.

Limiting scope of Decision

The DG's text used the term "patented subject matter", which has been changed to "subject matter of a patent" in the course of negotiations to reflect language used in Article 31 of the TRIPS Agreement. (Article 31 deals with the granting of licences to third parties without the consent of the patent holder – commonly referred to as "non-voluntary licences" or "compulsory licences".)

With this change, the definition of "subject matter of a patent" as reflected in footnote 2 of the DG's text becomes non-exhaustive: "For the purpose of this Decision, it is understood that 'subject matter of a patent' includes ingredients and processes necessary for the manufacture of the COVID-19 vaccine."

A developing country sought the deletion of "necessary" for it would impose a "necessity" test that is difficult to pass in the WTO.

The UK made several regressive proposals aimed at creating an exhaustive list of "patented" subject matter for which a non-voluntary licence may be issued under the Decision, even though determining the patent landscape of any aspect of a vaccine is a Herculean task, if not impossible. The suggestion also fails to take into account the numerous pending patent applications over COVID-19 vaccines that could create a chilling effect for potential manufacturers.

The UK's proposed amendments would also exclude other tools important for the manufacture of COVID-19 vaccines, such as single use bio-bags, single use filters, micro fluid and nano fluid mixers for lipid nano particles etc., even as the world has seen a shortage of many of the tools needed for manufacturing due to the high concentration in the production of these tools.

With the addition of the UK's proposals (that have not been agreed to), the text in footnote 2 is: "For the purpose of this Decision, it is understood that subject matter of a patent [includes] [means patented finished COVID-19 vaccine products, patented] ingredients and [patented] processes[for use in] [necessary for] [in relation to] the manufacture of the COVID-19 vaccine."

Export waiver only for vaccines and not ingredients

The UK has further proposed limiting the scope of the sole waiver in the negotiating text.

Paragraph 3(c) of the draft Decision proposes a waiver of Article 31(f) of the TRIPS Agreement. This is the only waiver in the text, a far cry from what was envisaged in the original TRIPS waiver proposal co-sponsored by 65 developing countries that seeks waivers of TRIPS obligations with respect to patents, trade secrets, copyright and industrial designs.

Article 31(f) prescribes that any compulsory/government use licence should be predominantly for the supply of the domestic market of the WTO

Member authorizing such use. This means that a compulsory or government use licence cannot be issued exclusively or predominantly for export purposes. Since this restriction affects the supply of health products to countries having no manufacturing capacity, the TRIPS Agreement was amended to add Article 31bis. However, Article 31bis imposes extremely cumbersome conditions, which makes the flexibility difficult to use. (To date, there is only one instance of the use of Article 31bis.) This is one of the important reasons for seeking the waiver of Article 31(f) for COVID-19.

The waiver in the DG's text reads: "An eligible Member may waive the requirement of Article 31(f) that authorized use under Article 31 be predominantly to supply its domestic market and may allow any proportion of the authorized use to be exported to eligible Members, including through international or regional joint initiatives that aim to ensure the equitable access of eligible Members to the COVID-19 vaccine covered by the authorization."

The UK has proposed replacing "authorized use" with "COVID-19 vaccine produced under the authorization in accordance with the Decision". Effectively, the scope of the Article 31(f) waiver would then apply only to COVID-19 vaccines, excluding application of the waiver to tools such as ingredients required to produce the vaccines, thus making the entire decision unworkable.

An article in *Nature Biotechnology* dated 21 May 2021 revealed the complex intellectual property landscape behind mRNA-based COVID-19 vaccines, including patents on lipid nanoparticles, a critical ingredient for such vaccines.

The UK's proposal has been opposed by several developing countries participating in the text-based negotiations, but the UK has refused to withdraw it. The UK's position is supported by the EU, according to officials involved in the negotiations.

Supply covers only export and import

Another attempt by the UK to limit the scope of the Decision is to seek deletion of the word "supply" in Paragraph 1 of the negotiating text. The DG's original text reads: "Notwithstanding the provision of patent rights under its domestic legislation, an [eligible] Member may limit the rights provided for under Article 28.1 of the TRIPS Agreement (hereafter 'the Agreement') by authorizing the use of the patented subject matter required for the production and supply of COVID 19 vaccines ..."

The UK's proposal to remove the word "supply" would thus narrow the Decision only to "production", potentially creating confusion about the domestic use, export and import of COVID-19 vaccines produced under this Decision.

In making the proposal, the UK argued that the scope of "supply" was unclear, for it could also refer to transportation and distribution of the vaccines.

While there is nothing in the text that justifies the UK's argument, its reasoning reveals its opposition to the cause of equitable access.

Several officials involved in the negotiations privately confirmed that the EU, the UK and Switzerland are very much against the Decision having a scope that would enable access to tools that facilitate vaccination.

Following the UK's opposition to the word "supply", another delegation proposed defining "supply" as follows: "For the purposes of this Decision, 'supply' refers to exportation and importation [of the subject matter of a patent as referred to in footnote 2]."

With this definition, the Decision may not be used to supply domestic needs. Agreement has yet to be reached on the proposal to delete "supply" and its proposed definition.

Restricting scope of Article 39.3

Paragraph 4 of the DG's text states: "Nothing in Article 39.3 of the Agreement shall prevent an eligible Member from taking measures necessary to enable the effectiveness of any authorization issued as per this Decision."

This text is provided to overcome the test data protection or data exclusivity barriers related to the regulatory approval of a pharmaceutical product. Notably, Article 39.3 of the TRIPS Agreement does not require a government to provide protection of exclusive rights over data (data exclusivity) submitted by an originator pharmaceutical company for purposes of regulatory approval, which would prevent the entry of a generic version for a particular duration. Instead, Article 39.3 provides flexibility to countries to disclose test and other data submitted for domestic marketing approval to protect the public or take measures against unfair commercial use.

Though the Article 39.3 flexibility is independent of the patent status of a product, the DG's text links the use of such flexibility to compulsory/non-voluntary licences under the Decision.

Switzerland proposed text that would nullify the existing flexibility under Article 39.3. The Swiss proposal reads: "Nothing in this paragraph shall be interpreted as allowing the disclosure of undisclosed information submitted by the originator to the respective authorities of an eligible Member in a marketing approval procedure."

Pre-shipment notification

Paragraph 5 of the DG's text states: "For the purposes of transparency, as soon as possible after the adoption of the measure, an [eligible] Member shall communicate to the Council for TRIPS any measure related to the implementation of this Decision, including the granting of an authorization."

Footnote 5, which is linked to Paragraph 5, states: "The information provided shall include the name and address of the authorized entity, the product(s) for which the authorization has been granted and the duration of the authorization. The quantity(ies) for which the authorization has been granted and the country(ies) to which the product(s) is (are) to be supplied shall be notified as soon as possible after the information is available."

Several developing countries participating in the negotiations stressed the importance of simplified post facto notifications, citing the burdensome notification requirements of Article 31bis as the reason for its non-use.

In contrast, the UK's proposed text in Paragraph 5 reads: "but no later than... and before the shipment takes place", requiring information regarding implementation of the Decision to be communicated within a specified time frame.

Continued opposition from some countries led to the UK then shifting its addition to the end of the footnote: "if possible before a/any shipment takes place".

Pre-shipment notification is not a requirement of Article 31 of the TRIPS Agreement and is thus a "TRIPS-plus" requirement.

For many developing countries involved in the negotiations, the UK and Switzerland are clearly intent on complicating the negotiations and erecting hurdles in the path towards equitable access. *(TWN/SUNS9590)*

ACP, African Group, G33 up ante on permanent solution for PSH

With regard to agricultural trade reform, another area where an outcome for MC12 is targeted, consensus also continues to elude the WTO membership, including on the hot button issue of public food stocks.

by D. Ravi Kanth

GENEVA: Members of the African, Caribbean and Pacific (ACP) Group, the African Group and the G33 group of developing countries have upped the ante for securing a permanent solution on public stockholding (PSH) programmes for food security at MC12.

WTO Director-General Ngozi Okonjo-Iweala on 4 June attached a footnote to her draft text on PSH that enables the more than 80 developing and least-developed countries to press ahead with their proposed MC12 decision on a permanent solution.

The footnote says that "in case (a) permanent solution to (the) issue of public stockholding for food security purposes is not adopted at MC12" as proposed by more than 80 countries, then ministers could adopt the DG's formulation.

Apart from this crucial footnote, the DG's draft text calls for continuing negotiations and attempting to reach agreement on a permanent solution by MC13, which is scheduled for 2024, thereby effectively kicking the can down the road on this issue of importance to many developing countries.

Although the time is short for negotiating on the ACP-African Group-G33 proposal, with MC12 scheduled to start on 12 June, the footnote now enables negotiators and ministers to pursue the issue and let ministers decide the outcome in one way or the other.

The United States, the European Union and members of the Cairns Group of farm-exporting countries are apparently not enthused about the inclusion of the footnote in the DG's draft text, said people who asked not to be quoted.

The US has all along opposed a PSH permanent solution and seems to have been seeking to prevent any decision thereon until MC13, said people familiar with the negotiations.

At a meeting of the Doha agriculture negotiating body on 4 June, Thailand, a member of the Cairns Group, apparently pointed a finger at the WTO secretariat (which the DG heads), asking why it added the footnote that puts the negotiations on the permanent solution squarely on the table, said people who asked not to be quoted.

In a sharp response to the Thai ambassador's comments, the DG defended the secretariat for its day-and-night work over the past days, saying that it was wrong to attribute motives to the secretariat, said a person who asked not to be quoted. *(SUNS9590)*

Labour market recovery suffers significant setback – ILO

The number of hours worked globally fell in the first quarter of 2022, says the UN labour body, which sees a growing risk of further decline over the year as the labour market's recovery from the pandemic crisis is upset by economic shockwaves from the Ukraine war.

by Kanaga Raja

GENEVA: The number of hours worked globally deteriorated in the first quarter of 2022, to 3.8% below the pre-crisis benchmark of the fourth quarter of 2019, equivalent to a deficit of 112 million full-time jobs, according to the International Labour Organization (ILO).

In the latest edition of its *Monitor on the World of Work*, released on 23 May, the ILO said that recent containment measures in China account for the bulk of the global decline.

The ILO said that these estimates for the first quarter of 2022 present a marked deterioration compared with its previous projections of January 2022 (2.4% below the pre-crisis level, equivalent to 70 million full-time jobs).

The conflict in Ukraine has had not only a regional impact but has also hit the global economy by increasing inflation, especially in food and energy prices, and disrupting global supply chains, said the ILO report.

"In addition, heightened financial turbulence and monetary policy tightening is likely to have a broader impact on labour markets around the world in the months to come."

"There is a growing but uncertain risk of a further deterioration in hours worked over 2022," said the ILO.

"The global labour market recovery has gone into reverse. An uneven and fragile recovery has been made more uncertain by a self-reinforcing combination of crises. The impact on workers and their families, especially in the developing world, will be devastating and could translate into social and political dislocation," said ILO Director-General Guy Ryder.

"It is now more essential than ever that we work together and focus on creating a human-centred recovery," he added.

Latest trends

According to the ILO report, the COVID-19 pandemic created an unprecedented labour market crisis in 2020 followed by an uneven, uncertain and fragile recovery over 2021. At the start of 2022, labour markets are now reeling from further shocks that stem largely from the Ukraine conflict, which has significantly disrupted trade and commodity markets, with a rapid increase in prices, especially of essential goods including food and energy.

The overall economic and political environment is considerably more uncertain than it was at the beginning of the year, said the report.

"Global growth is projected to reach just 3.6% in 2022, which is 0.8 percentage points lower than January 2022 projections."

After a brief spike at the end of 2021 and early 2022, workplace closures are currently on a downward trend, the report noted. While most workers still live in countries with some form of workplace restrictions, the strictest form of closure (economy-wide required closures for all but essential workplaces) has nearly disappeared.

The report said these recent reductions in strict workplace closures were particularly pronounced in Europe and Central Asia, where currently 70% of workers face either only recommended closures or none at all. This is in stark contrast to the corresponding level of 10% in Eastern Asia, the only region currently not following the recent trend towards more relaxed measures.

After significant gains during the last quarter of 2021, the level of hours worked showed a marked deterioration during the first quarter of 2022, said the ILO.

During the first quarter of 2022, global hours worked were 3.8% below the level of the fourth quarter of 2019 (the pre-crisis benchmark), equivalent to a deficit of 112 million full-time jobs. This represents a setback in the recovery process since the last quarter of 2021 when the deficit in global hours worked was smaller, at 3.2%.

"The recent containment measures implemented in China account for the bulk (86%) of the global decline in hours worked in 2022 Q1."

The ILO said these estimates for the first quarter of 2022 present a marked deterioration compared to its previous projections of January 2022 (2.4% below the pre-crisis level, equivalent to 70 million full-time jobs).

"The conflict in Ukraine is already impacting labour markets, with a collapse in hours worked in Ukraine and a sizeable deterioration in the Russian Federation, with declines of 15.0 and 1.3 percentage points relative to 2021 Q4, respectively."

More broadly, global inflationary pressures especially in food and energy prices, disruptions to the global supply chains, heightened financial stress, and monetary policy tightening are yet to impact fully labour markets around the world, said the report.

In contrast to the immediate and direct effects on hours worked of COVID-19 lockdown measures, declines in economic activity due to financial and other shocks generally translate fully into such losses only after a time lag, the report said, adding that there is therefore a growing risk of a further deterioration in hours worked over 2022.

"Indeed, the current outlook is highly uncertain, with clear downside risks for the already fragile recovery," it said.

Globally, the level of hours worked is expected to decline further in the second quarter of 2022, an evolution that is mainly driven by China's continued containment measures and will be exacerbated by developments related to the conflict in Ukraine, the ILO said.

The ILO's latest projection for the second quarter of 2022 expects the level of hours worked to be 4.2% below the pre-pandemic level, which is equivalent to 123 million full-time jobs.

"Great divergence"

Beyond the aggregate trends, the "great divergence" between richer and poorer economies continues to characterize the labour market recovery in 2022, said the report.

High-income countries have experienced a strong recovery since the first quarter of 2021. However, in the first quarter of 2022, the level of hours worked in these economies was still 2.1% lower than the pre-crisis benchmark, even if this was a marked improvement on the 5.4% deficit observed at the beginning of 2021.

In contrast, low- and lower-middle-income economies suffered setbacks in their recovery at the start of 2022. Already constrained by limited fiscal space and vaccination rollouts, these countries are now being buffeted by the impact of financial, food and energy shocks.

In low-income countries, hours worked decreased further from a gap of 3.1% in the first quarter of 2021 (relative to the last quarter of 2019) to 3.6% in the first quarter of 2022. Lower-middle-income countries saw a larger deterioration in the gap in hours worked from 4.3% to 5.7%, while hours worked in upper-middle-income countries recovered during 2021 but have since registered losses, reflecting mainly the developments in China.

These diverging trends are likely to worsen in the second quarter of 2022, said the ILO. Driven by strong labour demand, hours worked in high-income countries are projected to further increase in the current quarter. In contrast, low- and middle-income countries are expected to experience stagnant and falling hours worked in 2022 Q2.

The report also said that newly available estimates show a setback for gender equality in hours worked. Before the pandemic, the gap in hours worked in employment by women and by men was already large, with women aged 15-64 working an average of 19.8 hours per week, compared with 34.7 hours per week for men. The recovery has been insufficient to bring the gender gap in hours worked back to the pre-pandemic level, it said.

"Despite significant improvements in 2021, the gender gap in hours worked expanded during the first quarter of 2022. In 2022 Q1, the global gender gap in hours worked was 0.7 percentage points larger than the pre-crisis situation (fourth quarter of 2019)."

The great divergence between richer and poorer countries evident during the recovery period is also reflected in the gender gap in hours worked, said the report.

It said women and men in high-income countries have both experienced a strong recovery in hours worked. By the fourth quarter of 2020, the increase in the gender gap, which was most pronounced in the second quarter of 2020, had been fully reversed in these economies. Since then, hours worked by women in high-income countries have recovered faster than those of men. "At the current rate of progress, it would take 30 years to close the gap in hours worked in high-income countries."

In 2021, three out of five workers lived in countries where average annual labour incomes had not yet recovered to their level of the fourth quarter of 2019.

In contrast, the gender gap in low- and middle-income countries remains larger than the pre-pandemic level despite some progress. In the first quarter of 2022, the gender gap in hours worked was 1.1 percentage points higher than in the last quarter of 2019, with the situation being similar in lower-middle- and upper-middle-income countries (1.0 and 0.4 percentage points, respectively). "In terms of absolute numbers, in the first quarter of 2022, men worked an average of 10.5 more hours per week through employment than women in low-income countries, 15.7 more hours in lower-middle-income countries (excluding India), and 9.1 more hours in upper-middle-income countries."

In line with the overall divergence in hours worked, employment levels had recovered in most high-income countries by the end of 2021, while deficits remained significant in most middle-income economies, said the ILO.

In advanced economies with available data (34 countries), the divergence in the employment-to-population ratio from the last quarter of 2019 had been mostly eliminated by the end of 2021. In about 60% of the countries, the employment-to-population ratio in the last quarter of 2021 was, in fact, already higher than the pre-crisis level (2019 Q4), with a median gain of 0.3 percentage points.

In contrast, in the majority of middle-income countries with available data (13 countries), the employment deficit continued to be significant in 2021 Q4, up to five percentage points, with a median deficit of 1.4 points relative to the fourth quarter of 2019.

The employment deficit in these developing economies is matched by the persistent higher rates of inactivity, which had a median gap of 1 percentage point in the fourth quarter of 2021 (relative to 2019 Q4).

The report said these figures indicate that the recovery in hours worked has been accompanied by a strong rebound in employment in advanced economies as people have returned to the labour market, while in the middle-income countries, the employment deficit persists.

Further, the ILO said that in 2021, three out of five workers lived in countries where average annual labour incomes had not yet recovered to their level of the fourth quarter of 2019.

According to the latest estimates of labour income which take into account newly available data as well as the impact of support measures, global labour income in 2021 surpassed its pre-crisis level by 0.9%. This development was driven by high-income countries and China, which together account for more than 80% of global labour income.

However, workers in low-, lower-middle- and upper-middle-income countries (excluding China) still faced reduced labour incomes in 2021, at rates of -1.6%, -2.7% and -3.7%, respectively, compared with the pre-crisis situation.

Differences in the recovery in hours worked and in productivity growth partially explain this global divergence in labour income trends. With global inflation projected to remain high in 2022, there is a risk of further impacts on real labour incomes.

Inflation, wages and employment

Unlike the developing world, many advanced economies have experienced strong employment recovery since early 2021, said the ILO report. The strength of recovery in high-income countries is reflected in sharp increases in job vacancies relative to the number of jobseekers, a situation which is often referred to as labour market tightness.

Analysis of countries with available data (a sample of 39 economies including 35 high-income countries) suggests that labour market tightness has increased substantially with respect to the pre-crisis level. In these countries, labour market tightness increased by a median average of 32%, meaning that for each unemployed worker, there are now 32% more vacancies than before the pandemic.

The large increases in vacancies have been driven by several factors, said the ILO. Stronger-than-expected demand, partly due to excess savings in the early phase of the pandemic, has led to an increasing demand for labour. Other pandemic-specific drivers include shifts in demand to goods from services, supply-chain disruptions, hesitancy (particularly among older workers) to return to employment, higher but unmet demand for flexible working arrangements, and reductions in migration flows. As hiring normally involves significant time and costs, the "excess" vacancy postings can persist for an extended period.

Evidence of increased labour market tightness, however, does not automatically imply that advanced countries are close to full employment with the risk of "overheating". Data shows that labour markets are generally not overheated, the report pointed out.

In contrast, there is currently no real sign of labour market tightness in developing countries where recovery is slower, more fragile and uneven, which negatively impacts labour demand, said the ILO.

With global inflation projected to increase significantly, there is a risk that many households will face significant reductions in disposable incomes unless their wages increase strongly in line with prices.

The report also said that increasing inflation impacts real incomes of households, which risks reducing aggregate demand and delaying recovery from the COVID-19 crisis. The current rise in inflation is driven strongly by a sharp increase in commodity prices, particularly for food and energy.

As firms pass on higher input prices to consumers, the purchasing power of households will fall in the absence of commensurate income increases. Consequently, aggregate demand could fall significantly, hampering economic growth and employment. Low-income households that spend a significant share of income on food items are at particular risk of falling into poverty and may even face food insecurity and hunger.

Real wages grew more slowly in 2021 than before the pandemic, said the ILO report. In countries with available data (seven middle-income countries and 18 high-income countries), median nominal wage growth was 5% in 2021, while median real wage growth was only 1.6% due to the impact of rising inflation rates.

With global inflation projected to increase significantly from 4.7% in 2021 to 7.4% in 2022, there is a risk that many households will face significant reductions in disposable incomes unless their wages increase strongly in line with prices.

To date, there is little evidence that wages are causing an inflationary spiral, said the report. The available evidence for 16 high-income countries does not suggest a positive relationship between the increase in labour market tightness and real wages since 2019. "This would seem to indicate that the overall risk of a wage-price spiral in the near future remains low." *(SUNS9584)*

UN "deeply troubled" by impending cuts in development aid

As the rich countries channel resources towards dealing with the impacts of the Ukraine war, aid to the developing world could take a hit at a time when it is most needed.

by Thalif Deen

NEW YORK: The Russian invasion of Ukraine, which has triggered a hefty increase in military spending among Western nations and a rise in humanitarian and military assistance to the beleaguered country, is now threatening to undermine the flow of official development assistance (ODA) to the world's poorer nations.

In an advance warning of the upcoming cuts, the UN's Deputy Secretary-General Amina Mohammed told a recent meeting of the UN Economic and Social Council (ECOSOC): "As Chair of the United Nations Sustainable Development Group, I am deeply troubled over recent decisions and proposals to markedly cut Official

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Development Assistance (ODA) to service the impacts of the war in Ukraine on refugees."

UN Secretary-General Antonio Guterres, who was equally concerned about the impending reductions, has urged donor nations to reconsider making cuts that will affect the world's most vulnerable.

The people who benefit from the work of the UN system need additional and more predictable funding, he added. "Contributions to key UN agencies, funds and programmes, working with people on the ground, are facing steep proposed reductions. Cuts to development and the United Nations mean scaling back support at a time when demand for support to meet the deepening development needs has reached an all-time high."

He said that ODA is more necessary than ever, and called upon all countries to demonstrate solidarity, invest in resilience and prevent the current crisis from escalating further.

According to the UN's *Financing for Sustainable Development Report 2022: Bridging the Finance Divide,* released in April, "the fallout from the crisis in Ukraine, with increased spending on refugees in Europe, may mean cuts to the aid provided to the poorest countries".

At a meeting in mid-May, the Group of Seven, which comprises some of the world's biggest economies – Canada, France, Germany, Italy, Japan, the UK and the US, plus the European Union – agreed to provide nearly $20 billion to support Ukraine and bolster its war-ravaged economy. Separately the US has pledged over $40 billion in economic, humanitarian and military assistance to Ukraine since the Russian invasion in February.

The widespread fear is that the collective $60 billion assistance to Ukraine may result in corresponding reductions in ODA.

Bhumika Muchhala, senior advocate on global economic governance at the Third World Network, told Inter Press Service (IPS) that cuts to ODA at a time of a convergence of crises in the Global South are extremely concerning.

She said that the pandemic is still ongoing, and health and economic recovery need immediate funds. Food security is being threatened by global supply disruptions, exacerbated by the war in Ukraine, creating urgent crises of malnutrition, hunger and even famine.

She also pointed out that climate change is creating catastrophes every day, from fatal heatwaves to floods and droughts, while both existing climate financing as well as ODA commitments still remain unfulfilled by rich countries.

"Underpinning these crises is the surge in gender inequality, as women absorb the shocks and costs of global inequalities," said Muchhala.

"Making matters worse, a large number of developing countries are in debt distress or experiencing debt crisis, leading to another era of austerity that is already arresting the achievement of SDGs [the UN's Sustainable Development Goals], resulting in a retrogression of poverty reduction that has taken many decades of hard-won economic and social development to achieve."

"Instead of cherry-picking humanitarian crises, donor governments need to boost aid budgets to meet the challenges of today."

In light of the fact that every crisis in the South will ripple through the world economy with adverse effects for all, "rich countries have a collective duty to fulfil existing ODA commitments, as well as climate financing commitments and efforts to create genuine fiscal space for developing countries through equitable debt restructuring, international tax cooperation to eradicate illicit financial flows, and needs-based issuances of Special Drawing Rights," Muchhala declared.

ODA falls short

The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), comprising some of the world's richest nations, has been providing development assistance since the 1960s.

According to the OECD, ODA is defined as "government aid that promotes and specifically targets the economic development and welfare of developing countries". The DAC adopted ODA as the "gold standard" of foreign aid in 1969 and it remains the main source of financing for development aid.

The *Bridging the Finance Divide* report said ODA amounted to $161.2 billion in 2020. "Yet, 13 countries cut ODA, and the sum remains insufficient for the vast needs of developing countries."

According to the OECD, ODA rose to an all-time high of $178.9 billion in 2021, up 4.4% in real terms from 2020, as developed countries stepped up to help developing countries grappling with the COVID-19 crisis. This figure included $6.3 billion spent on providing COVID-19 vaccines to developing countries, equivalent to 3.5% of total ODA. Excluding ODA for donated COVID-19 vaccines, ODA was up 0.6% in real terms from 2020.

The 2021 ODA total is equivalent to 0.33% of DAC donors' combined gross national income (GNI) – still below the UN target of 0.7%.

In a statement in April, Jeroen Kwakkenbos, EU aid expert at the international humanitarian organization Oxfam, said donors have thrown out the rulebook by counting vaccine donations in aid budgets.

"Over 350 million vaccine doses came from hoarded stocks, some of which were donated far too close to their expiry date. Many more were donated without essential equipment such as syringes, making them almost useless. Including these 'donations' in aid budgets inflates aid. It is merely donors patting themselves on the back for a job that may have cost lives," he noted.

"The war in Ukraine poses a risk to future aid budgets. Aid is already being pulled from countries like Syria to fund the reception of Ukrainian refugees in Europe."

"We are left with the bizarre situation where European countries could become the largest recipients of their own aid. Instead of cherry-picking humanitarian crises, donor governments need to boost aid budgets to meet the challenges of today." *(IPS)*

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Fighting inflation excuse for class warfare

Tackling inflation by hiking up interest rates hurts the working class; more equitable alternative policy approaches are available.

by Anis Chowdhury and Jomo Kwame Sundaram

A class war is being waged in the name of fighting inflation. All too many central bankers are raising interest rates at the expense of working people's families, supposedly to check price increases.

Forced to cope with rising credit costs, people are spending less, thus slowing the economy. But it does not have to be so. There are much less onerous alternative approaches to tackle inflation and other contemporary economic ills.

Short-term pain for long-term gain?

Central bankers are agreed that inflation is now their biggest challenge, but also admit having no control over factors underlying the current inflationary surge. Many are increasingly alarmed by a possible "double-whammy" of inflation and recession.

Nonetheless, they defend raising interest rates as necessary "preemptive strikes". These supposedly prevent "second-round effects" of workers demanding more wages to cope with rising living costs, triggering "wage-price spirals".

In central bank jargon, such "forward-looking" measures convey clear messages "anchoring inflationary expectations", thus enhancing central bank "credibility" in fighting inflation. They insist the resulting job and output losses are only short-term – temporary sacrifices for long-term prosperity.

Remember: central bankers are never punished for causing recessions, no matter how deep, protracted or painful.

But raising interest rates only makes recessions worse, especially when the inflation is not caused by surging demand. The latest inflationary surge is clearly due to supply disruptions because of the pandemic, war and sanctions.

Raising interest rates only reduces spending and economic activity without mitigating "imported" inflation, e.g., rising food and fuel prices. Recessions will further disrupt supplies, aggravating inflation and worsening stagflation.

Some central bankers claim recent instances of wage increases signal "de-anchored" inflationary expectations and threaten "wage-price spirals". But this paranoia ignores changed industrial relations and pandemic effects on workers.

With real wages stagnant for decades, the "wage-price spiral" threat is grossly exaggerated. Over recent decades, most workers have lost bargaining power with deregulation, outsourcing, globalization and labour-saving technologies. Hence, labour shares of national income have declined in most countries since the 1980s.

Labour market recovery, even tightening in some sectors, obscures adverse overall pandemic impacts on workers. Meanwhile, millions of workers have gone into informal self-employment – now celebrated as "gig work" – increasing their vulnerability.

Pandemic infections, deaths, and mental health, education and other impacts, including migrant worker restrictions, have all hurt many. Contagion has especially hurt vulnerable workers, including youth, migrants and women.

Ideological central bankers

Economic policies by supposedly independent and knowledgeable technocrats are presumed to be better. But such naive faith ignores ostensibly academic, ideological beliefs.

Typically biased, albeit in unstated ways, policy choices inevitably support some interests over – even against – others. Thus, for example, an anti-inflation policy emphasis favours financial asset owners.

Politicians like the notion of central bank independence. It enables them to conveniently blame central banks for inflation and other ills – even "sleeping at the wheel" – and for unpopular policy responses.

Of course, central bankers deny their own role and responsibility, instead blaming other economic policies, especially fiscal measures. But politicians blaming central bankers after empowering them is simply shirking responsibility.

In the rich West, governments long bent on fiscal austerity left the heavy lifting for recovery after the 2008-09 global financial crisis (GFC) to central bankers. The latter's "unconventional monetary policies" involved keeping policy interest rates very low, enabling corporate shenanigans and "zombie" business longevity.

This enabled unprecedented increases in most debt, including private credit for speculation and sustaining "zombie" businesses. Hence, recent monetary tightening – including raising interest rates – will trigger more insolvencies and recessions.

Social partnerships and dialogues

Inflation and policy responses inevitably involve social conflicts over economic distribution. In Germany's "free collective bargaining", trade unions and business associations engage in collective bargaining without state interference, fostering cooperative relations between workers and employers.

The German Collective Bargaining Act does not oblige "social partners" to enter into negotiations. The timing and frequency of such negotiations are also left to them. Such flexible arrangements are said to have helped small and medium-sized enterprises.

Although Germany's "social market economy" has no national tripartite social dialogue institution, labour unions, business associations and government did not hesitate to democratically debate crisis measures and policy responses to stabilize the economy and safeguard employment, e.g., during the GFC.

A similar "social dialogue" approach was developed by Australian Labor Prime Minister Bob Hawke from 1983. This contrasted with the more confrontational approaches pursued in Margaret Thatcher's UK and Ronald Reagan's USA, where punishing interest rates inflicted long recessions.

Although Hawke had been a successful trade union leader, he began by convening a national summit of workers, businesses and other stakeholders. The resulting Prices and Incomes Accord between the government and unions moderated wage demands in return for "social wage" improvements. This consisted of better public health provisioning, pension and unemployment benefit improvements, tax cuts and "superannuation" – involving required employees' income shares and matching employer contributions to a workers' retirement fund.

Although business groups were not formally party to the Accord, Hawke brought big businesses into other new initiatives such as the Economic Planning Advisory Council. This consensual approach helped reduce both unemployment and inflation.

Such consultations have also enabled difficult reforms, including floating exchange rates and reducing import tariffs. They also contributed to the developed world's longest uninterrupted economic growth streak – without a recession for nearly three decades, ending in 2020 with the pandemic.

A variety of such approaches exist. For example, Norway's *kombiniert oppgjior*, from 1976, involved not only industrial wages but also taxes, salaries, pensions, food prices, child support payments, farm support prices and more.

"Social partnerships" have also been important in Austria and Sweden. A series of political understandings – or "bargains" – between successive governments and major interest groups enabled national wage agreements from 1952 until the mid-1970s.

Consensual approaches undoubtedly underpinned post-Second World War reconstruction and progress, in the so-called Keynesian "Golden Age". But it is also claimed they have created rigidities inimical to further progress, especially with rapid technological change.

Economic liberalization in response has involved deregulation to achieve more market flexibilities. But this approach has also produced more economic insecurity, inequalities and crises, besides stagnating productivity.

Such changes have also undermined democratic states and enabled more authoritarian, even ethno-populist regimes. Meanwhile, rising inequalities and more frequent recessions have strained social trust, jeopardizing security and progress.

Policymakers should consult all major stakeholders to develop appropriate policies involving fair burden sharing. The real need then is to design alternative policy tools through social dialogue and complementary arrangements to address economic challenges in more equitably cooperative ways. *(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.*

In the shadow of Davos, central bankers go rogue – and rational

Writing as global elites gathered for their annual Alpine confab, *Sam Pizzigati* highlighted a new report which decried the very inequality for which the Davos meet has become a byword. The publishers of this report: the central banks' central bank, no less.

We've had quite a show up in the Alps, the first in-person gathering of the world's mega-rich since COVID hit. The occasion? The annual World Economic Forum (22-26 May) at the Swiss resort of Davos, an ever-so-sober gathering that has an assortment of global deep thinkers sharing their wisdom with deep pockets ever eager for policy ideas that don't involve sharing their wealth.

Also on hand, in person and remotely: a collection of the world's most stalwart egalitarians, advocates ranging from activists with the Patriotic Millionaires to analysts at the anti-poverty powerhouse Oxfam. These analysts, on the eve of Davos, released gripping new data on how billionaires in food and energy have been swelling their fortunes – at consumer expense.

Summed up the Oxfam analysis: "The pandemic – full of sorrow and disruption for most of humanity – has been one of the best times in recorded history for the billionaire class."

That billionaire class and those dedicated to its care and feeding have been swarming all over Davos this week. The over 2,000 registered attendees include 612 corporate CEOs, several hundred additional top corporate officers, and packs of luminaries from the worlds of high-finance, media and academia.

All these power suits are doing their Alpine best to show how much and how sincerely they care about the challenges that face humanity. The World Economic Forum agenda showcases discussions on everything from outfitting Africa with patent-protected medicines to identifying climate "blind spots" and preventing a global food collapse.

But these global movers and shakers, in the process of doing their best, never seem to get around to confronting the continuing concentration of the world's income and wealth. Hardly anyone on the Davos attendee list appears eager to even acknowledge that challenge, let alone debate how best to meet it.

And that stance has turned this week's ideological battling at Davos into a nasty artillery duel, with each side heaving news releases into the fray, hoping for direct hits that make it onto the world's front pages. Trust us, exhort the Davos elites, we care. Let's trim the rich down to something close to democratic dimensions, counter the egalitarians. They're enfeebling our future.

The BIS on inequality

Who figures to prevail in a battle this brutally simple? The deep pockets of the World Economic Forum have at their disposal the finest public relations and imaging talent lots of money can buy. The egalitarians, for their part, came to Davos with high hopes. But then something strange happened. Those egalitarians preaching "tax the rich" suddenly found themselves with a totally unexpected new ally: the high command of the world's central bankers!

No, some impish egalitarians did not dress up as power-suited central bankers and hand out counterfeit news releases. The reality may actually be more bizarre: The world's central banking nerve centre is now calling for a clear pivot away from policies that let the rich get richer.

That call came on 19 May, just a few days before the opening of Davos 2022, when the "bank for central banks" – the Basel-based Bank for International Settlements (BIS) – released a carefully argued 100-plus-page report that essentially endorses the basic change agenda egalitarians brought to Davos.

The paper's nearly impenetrable title – "Inequality hysteresis and the effectiveness of macroeconomic stabilization policies" – gives no clue to its political significance. This analysis doesn't come from some obscure BIS researcher. The lead author, Luiz Awazu Pereira da Silva, serves as the BIS deputy general manager. His four co-authors include Benoît Mojon, the head of the BIS Economic Analysis division. And the foreword for the paper comes from the top BIS executive, the University of Chicago-trained general manager Agustín Carstens.

Inequality, this BIS team observes, is holding us back. The economic profession's old conventional wisdom – that societies have to choose between equality and efficiency – no longer holds sway. Modern economists, the new BIS paper notes, have convincingly documented how "inequality diminishes growth and productivity." They've provided convincing "evidence that reducing inequality can increase productivity and average standards of living."

The new BIS research extends this understanding, in an analysis that revolves around what BIS general manager Carstens styles "a new facet of inequality: its persistence or 'hysteresis' after recessions."

"Inequality metrics," the new BIS paper shows, "generally deteriorate persistently after recessions," largely because rising unemployment "tends to hit poorer workers harder" while "depressing the bargaining power of those who have kept their jobs."

"Countries and regions with higher levels of inequality typically experience deeper recessions," adds the BIS analysis. "In other words, excessive inequality serves to erode macroeconomic stability."

And what happens to societies once they lose that stability? Inequality leaves them less equipped to clean up their economic messes, through either traditional fiscal or monetary policies.

On the fiscal side, the analysts note, governments over recent decades "have made personal income taxation less progressive, meaning that taxes on high-income households have fallen more quickly than taxes on low-income households." At the same time, unemployment insurance has been replacing less and less of what jobless workers used to be earning. These two trends have left "fiscal policy less countercyclical and hence less capable of cushioning fluctuations in economic activity."

The result? Recessions run "deeper in countries (and states) with higher levels of inequality."

Meanwhile, amid rising income inequality, monetary policy moves start stumbling as well. Interest rate hikes become "less effective" as economic stabilizers, since inequality "determines how strongly consumption and aggregate demand will respond to monetary policy." The more of it, the less impactful interest rate changes will be. The high-consumption rich, the BIS paper explains, will always be "largely insensitive" to interest rate increases.

The core message for central bankers in all this: "Greater income inequality implies deeper recessions, reducing the effectiveness of monetary policy. Therefore, policies that reduce income inequality could imply, as a side benefit, a more stable economic cycle both directly and indirectly, by restoring the effectiveness of monetary policy."

"Once upon a time," as the European University Institute's Jean Pisani-Ferry observes in his preface to the new BIS report, the world had "more pressing problems for central banks to deal with than income and wealth distribution." No longer.

"To pretend that central banks can be indifferent to distributional concerns," sums up Pisani-Ferry, a senior fellow at the Peterson Institute for International Economics in Washington, D.C., "is the moral equivalent to saying that males can be gender-blind."

Anti-inequality measures

And how should modern economies address these "distributional concerns"? Reports from prestigious economic bodies typically get hazy and tentative when they venture into gameplans for reversing inequality. This new BIS paper, by contrast, could hardly be more precise.

Nations, the paper declares, need to reconsider their tax policies "more forcefully for their redistributive consequences." That means "a return to the more progressive tax system that was in place after World War II, with marginal tax top rates that were much higher than today."

How much higher? In the United States, a wealthy couple filing jointly currently faces a 37% federal tax on earned income over $647,850. For most of the two decades after World War II, taxpayers faced a 91% tax rate on income at that comparable level. Those years of record-high taxes on America's rich, not so coincidentally, saw the United States become the home of the first mass middle class in the history of the world.

But the BIS gameplan for greater equality doesn't stop here with the income tax. The BIS paper also calls for "more progressive inheritance and real estate taxation" and suggests that a "recourse to a wealth tax" would allow us to reduce other existing tax levies that tend to privilege the already privileged.

And the paper goes on to recognize that "the preservation of real income during recessions" requires as well "looking at pricing practices related to competition policies in various markets." We need, the BIS paper declares, to reinforce "adequate regulation and anti-trust laws." The price gouging we've seen during the pandemic "provides a good illustration" why we need this reinforcement. With "specific supply bottlenecks" leading to "sudden price rises for much-needed services used by low-income groups," nations should be endeavouring "to incentivize a pricing behaviour that avoids any oligopolistic or opportunistic re-pricing of basic services."

"State-contingent stronger competition standards," the paper explains, "could help limit the windfall gains that accrue to producers when prices peak."

Higher taxes on high incomes. Stiffer taxes on inheritances and grand properties. A wealth tax. A meaningful offensive against corporate price gouging. If these sorts of policy moves sound familiar, they should. They reflect exactly the sorts of steps egalitarian-minded advocacy groups and progressive institutions have spent the week of Davos working to advance.

These groups and institutions, a coalition that ranges from the Fight Inequality Alliance to the Institute for Policy Studies, have re-released a "Taxing Extreme Wealth" report from January that shows how a modest annual wealth tax on the world's millionaires and billionaires "could generate upwards of $2.52 trillion a year," enough to lift 2.3 billion people out of poverty.

On 24 May, Oxfam added into the mix brand-new research showing "how billionaires and corporations in the food, energy, pharmaceutical, and technology sectors are reaping huge rewards at the same time as the soaring cost of living is hurting so many worldwide." Oxfam is calling for a 90% tax on excess profits "to capture the windfall profits of corporations across all industries," special one-time solidarity wealth levies on new billionaire wealth, and a permanent wealth tax on the world's greatest personal fortunes.

All these proposals echo the sentiments and policy suggestions that course through the pages of the BIS "inequality hysteresis" analysis. What should this meeting of the minds tell us? Simply this: The case for our stunningly unequal status quo has totally collapsed. Outside of billionaires and people starstruck in their presence, rational people mostly all agree we need to make our Earth a much more equal place.

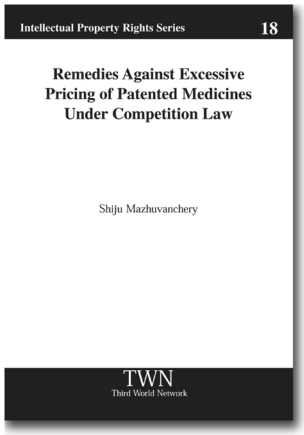
Maybe one day even the denizens of Davos will get that message.

Sam Pizzigati *co-edits* *Inequality.org*, *from which this article is reproduced under a Creative Commons licence. His latest books include* The Case for a Maximum Wage *and* The Rich Don't Always Win: The Forgotten Triumph over Plutocracy that Created the American Middle Class, 1900-1970. *Readers can access his earlier book,* Greed and Good: Understanding and Overcoming the Inequality that Limits Our Lives, *online at Inequality.org. Twitter: @Too_Much_Online.*

TWN Intellectual Property Rights Series No. 18

Remedies Against Excessive Pricing of Patented Medicines Under Competition Law

by Shiju Mazhuvanchery



Exorbitant medicine prices, especially for medicines subjected to patent protection, are increasingly coming under the spotlight. This paper considers whether and how this serious concern can be addressed within the framework of competition law.

Differing perspectives exist over the appropriateness of intervention by competition authorities in cases of excessive pricing, particularly when these involve patented products. However, there are no legal barriers to such intervention; competition authorities can act – and have acted – against firms deemed to have charged unfairly high prices for medicines, including those under patent.

In fact, this paper contends, competition enforcement against excessive pricing of patented medicines would not only advance consumer welfare but also contribute to safeguarding the fundamental human right to health. The remedies available under competition law – such as compulsory licensing – can be effectively applied to keep a lid on the prices of essential, potentially life-saving medicines.

Available at *https://twn.my/title2/IPR/ipr18.htm*