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Trends and Analysis

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Harmful policy mix at work

Governments around the world are ratcheting up interest rates, cutting down on public spending and refraining from raising taxes on the wealthy – policy choices that hurt the poor and exacerbate inequality.

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Social grants offer cash, but they aren't a magic-bullet response to inequality

The IMF and World Bank must support public services

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THIRD WORLD ECONOMICS
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Governments stoked an inequality explosion during pandemic – study

Even as the COVID-19 pandemic wrought economic turmoil, governments worldwide have worsened inequality by reducing public spending and shying away from taxing the wealthy.

Rich and poor countries alike have exacerbated an explosion of economic inequality since the outbreak of the pandemic from 2020, reveals new research by Oxfam and Development Finance International (DFI).

The overwhelming majority of governments cut their shares of health, education and social protection spending. At the same time, they refused to raise taxes on excessive profits and soaring wealth.

The 2022 Commitment to Reducing Inequality (CRI) Index (https://policy-practice.oxfam.org/resources/the-commitment-to-reducing-inequality-index-2022-621419/) is the first detailed analysis looking at governments' policies and actions to fight inequality during the first two years of the pandemic. It reviews the spending, tax and labour policies and actions of 161 governments during 2020-22.

The index shows that despite the worst health crisis in a century, half of low- and lower-middle-income countries cut their share of health spending of their budgets. Almost half of all countries cut their share going to social protection, while 70% cut their share going to education.

As poverty levels increased to record levels and workers struggled with decades-high prices, two-thirds of countries failed to raise their minimum wages in line with economic growth. Despite huge pressure on government finances, 143 of 161 countries froze the tax rates on their richest citizens, and 11 countries even lowered them.

France fell five places in the index after cutting corporate tax rates and eliminating its wealth tax altogether in 2019. Jordan dropped its budget share for health spending by a fifth, despite the pandemic. Nigeria did not update its minimum wage since before the pandemic, and the US has not raised the federal minimum wage since 2009.

"Our index shows that most governments have completely failed to take the steps needed to counter the inequality explosion created by COVID-19. They ripped away public services when people needed them most and instead left billionaires and big corporations off the hook to reap record profits," said Gabriela Bucher, Oxfam International Executive Director.

However, Bucher added: "There is some good news of valiant governments from the Caribbean to Asia bucking this trend, taking strong steps to keep inequality in check." Strong actions to reduce inequality were taken by both low- and middle-income countries:

- Costa Rica put up its top income tax by 10%, and New Zealand by 6%.
- The Occupied Palestinian Territory increased its social spending from 37% to 47% of its entire budget.
- Barbados introduced a comprehensive set of laws to improve women's labour rights, and the Maldives introduced its first national minimum wage.

Policy choice

As finance ministers gathered in Washington for the International Monetary Fund (IMF) and World Bank Annual Meetings on 10-16 October, developing nations are facing a global economy that is making it ever more difficult to meet the needs of their population. While injecting trillions into their own economies, rich countries failed to increase aid during the pandemic. Economic inequality and poverty in poor countries are further exacerbated by the IMF's insistence on new austerity measures to reduce debts and budget deficits.

"The debate has catastrophically shifted from how we deal with the economic fallout of COVID-19 to how we reduce debt through brutal public spending cuts and pay freezes. With the help of IMF, the world is sleepwalking into measures that will increase inequality further. We need to wake up and learn the lessons; preventing huge increases in inequality is completely practical, and common sense. Inequality is a policy choice, governments must stop putting the richest first and ordinary people last," says Matthew Martin, Director of DFI.

Oxfam and DFI analysis shows that based on IMF data, three-quarters of all countries globally are planning further cuts to expenditures over the next five years, totalling $7.8 trillion. In 2021, lower-income countries spent 27.5% of their budgets in repaying their debts – twice the amount they have spent on their education, four times that on health and nearly 12 times that on social protection.

"For every dollar spent on health, developing countries are paying four dollars in debt repayments to rich creditors. Comprehensive debt relief and higher taxes on the rich are essential to allow them to reduce inequality dramatically," said Martin.

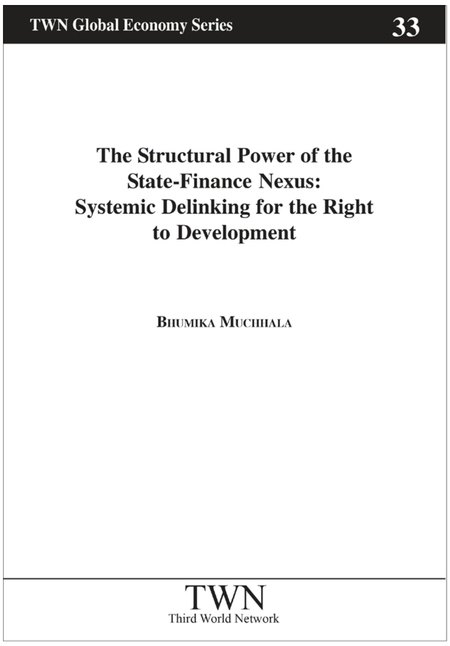
Nearly all countries failed to increase taxation on the richest or pursue windfall profits during the COVID crisis, despite historical precedent. After the 1918 flu epidemic, the 1930s depression and World War Two, many rich countries increased taxes on the richest and introduced taxes on corporate windfall profits. They used this revenue to build education, health and social protection systems. Taxation of the wealthiest and windfall profits can generate trillions of dollars in tax revenue.

"Government leaders in Washington face a choice: build equal economies where everyone pays their fair share, or continue to drive up the gap between the rich and the rest, causing huge, unnecessary suffering," said Bucher. – *Oxfam International*

TWN Global Economy Series No. 33

The Structural Power of the State-Finance Nexus: Systemic Delinking for the Right to Development

By Bhumika Muchhala



The current era of financial hegemony is characterized by a dense financial actor concentration, an exacerbated reliance of many South countries on private credit, and an internalized compliance of South states with financial market interests and priorities. This structural power of finance enacts itself through disciplinary mechanisms such as credit ratings and economic surveillance, compelling many South states to respond to creditor interests at the expense of people's needs.

As a human rights paradigm, the Declaration on the Right to Development has the active potential to redress the structural power of finance and the distortion of the role of the state through upholding the creation of an enabling international environment for equitable and rights-based development on two levels of change. The first comprises structural policy reforms in critical areas of debt, fiscal policy, tax, trade, capital flows and credit rating agencies. The second area of change envisions systemic transformation through delinking as articulated by dependency theorist Samir Amin, which entails a reorientation of national development strategies away from the imperatives of globalization and towards economic, social and ecological priorities and interests of people.

Available at https://twn.my/title2/ge/pdf/ge33.pdf

North countries stalemate TRIPS decision on diagnostics and therapeutics

An easing of the WTO's intellectual property rules by yearend to facilitate production of COVID-19 tests and treatments may be unlikely given apparent stalling by developed-country members.

by D. Ravi Kanth

GENEVA: The prospects for reaching an agreement at the World Trade Organization on extending its TRIPS decision on COVID-19 vaccines to cover the production and supply of diagnostics and therapeutics by the deadline of 17 December seem almost impossible, due to the same old "stonewalling" tactics adopted by the major developed countries since 2020, said people familiar with the discussions.

At a regular meeting of the WTO's Council for Trade-Related Aspects of Intellectual Property Rights (TRIPS) on 12 October, the differences in position between the major industrialized countries, on the one side, and a large majority of developing and least-developed countries, on the other, surfaced all over again and almost along the same lines as when 65 countries called for a comprehensive TRIPS waiver back in 2020.

As per paragraph 8 of the Ministerial Decision on the TRIPS Agreement adopted at the WTO's 12th Ministerial Conference (MC12) on 17 June, WTO members are mandated to decide "on its extension to cover the production and supply of COVID-19 diagnostics and therapeutics" no later than six months from the date of the Decision. That deadline expires on 17 December.

Yet, during the TRIPS Council meeting on 12 October, industrialized countries like the United States, the European Union, Japan, Canada, Korea and the United Kingdom, as well as Singapore, insisted on concrete evidence that intellectual property constitutes a barrier to access to COVID-19 diagnostics and therapeutics before considering extension of the TRIPS decision, said people familiar with the discussions.

The industrialized countries had made the same argument when India and South Africa presented their proposal in October 2020 for a waiver to suspend several provisions of the WTO's TRIPS Agreement relating to copyrights, industrial designs, patents and undisclosed information in order to scale up the production of COVID-19 vaccines, diagnostics and therapeutics. After a drawn-out negotiating process, the decision to loosen certain TRIPS Agreement rules was adopted at MC12 – an outcome that fell far short of the comprehensive waiver originally sought by India and South Africa (and supported by scores of other countries) and that furthermore applied only to vaccines.

Hesitancy

At the 12 October TRIPS Council meeting, India expressed concern about the apparent hesitancy with which the Council approached the issue of broadening the decision to cover diagnostics and therapeutics. It said that despite having submitted a room document in July on how to conduct the negotiations within the stipulated time period of six months, "we are surprised to see this hesitation from the institution." Ramping up production of diagnostics and therapeutics has been "thoroughly discussed in various formats on several occasions for the past two years", India noted.

The 65 countries proposing the comprehensive TRIPS waiver had, in three separate documents, already addressed the questions raised by the industrialized countries on the need for the waiver, India said. It urged members "who are asking for new evidence to please go through those documents and also go through the documents released by WHO [World Health Organization], which has well recognized therapeutics and diagnostics as integral components of a comprehensive 'prevent, test and treat' strategy to combat the pandemic."

With COVID-19 continuing to persist across countries at varying levels of intensity, India said, the pandemic "still remains a public health emergency of international concern" requiring testing and treatment as essential aspects of controlling and managing COVID-19. "In order to follow [the] test and treatment model," said India, "we need to make therapeutics and diagnostics not only available but also affordable and accessible."

However, the industrialized countries seem to be repeating what many developing countries regard as "stonewalling" tactics which they had adopted earlier, by demanding concrete evidence to prove that intellectual property is a barrier in terms of access to diagnostics and therapeutics, said one person.

At the TRIPS Council meeting, a large majority of developing countries, including the original proponents of the TRIPS waiver such as India and South Africa, along with Kenya on behalf of the African, Caribbean and Pacific (ACP) Group, Indonesia, Colombia, Sri Lanka, Egypt, Bolivia, Argentina, Brazil, and Bangladesh on behalf of the least-developed countries (LDCs), reportedly demanded a blanket approach for the mandated extension of the TRIPS decision to cover diagnostics and therapeutics. The developing and least-developed countries emphasized that the TRIPS decision must be implemented without any further change in terms of either definition or language, said trade officials who asked not to be quoted.

China supported the demand for implementing the TRIPS decision but suggested that it was holding domestic consultations.

Several other countries including the US, Mexico and Chinese Taipei sought flexibility on grounds that they were engaged in domestic consultations and were eliciting information on issues concerning diagnostics and therapeutics. Apparently, their domestic consultations also zeroed in on the supply and production demand and distribution of these products.

A WHO representative intervened as an observer during the debate at the TRIPS Council, reportedly suggesting the need to ensure coherence in the response to address public health concerns. WHO is reported to have said that not only vaccines but also a timely testing and treatment strategy was essential to address the pandemic.

WHO highlighted the specific problems and difficulties faced by the developing and least-developed countries as regards access to therapeutics, said a trade official who preferred not to be quoted. The WHO representative is understood to have observed that there were only a few voluntary licences from key patent holders to scale up the manufacture of diagnostics and therapeutics. The scope of the voluntary licences was not sufficient and excluded many countries, according to the representative, who emphasized the need to provide these technologies to developing countries.

Developing countries at the TRIPS Council meeting said the issue of extension needed to be addressed more intensely given the 17 December deadline.

The chair of the Council, Ambassador Lansana Gberie of Sierra Leone, informed members that he would hold the next TRIPS Council meeting on 2 November. He urged the proponents to present textual proposals, suggesting that the consultative process would be intensified based on these proposals.

In conclusion, the prospects for agreeing on the extension of the TRIPS decision to cover diagnostics and therapeutics by 17 December seem somewhat remote due to the apparent lack of urgency attached to the issue, said a developing-country official who asked not to be quoted. *(SUNS9667)*

WTO DG hosts retreat to brainstorm on fisheries subsidies

With the WTO having hammered out a partial agreement in June on regulating fisheries subsidies, trade diplomats gathered for a retreat in France on 10 October to discuss the way forward towards a full-fledged accord.

by D. Ravi Kanth

GENEVA: Many developing countries reportedly called for robust special and differential treatment (SDT) provisions in the overcapacity and overfishing pillar of the WTO fisheries subsidies negotiations, during a retreat hosted by the WTO Director-General (DG) Ngozi Okonjo-Iweala at the Evian Hilton Hotel in France on 10 October, said people familiar with the event.

Developing countries have also emphasized that the negotiations must be conducted in an open, transparent and inclusive manner, suggesting that there should not be sudden surprises, said a trade envoy who asked not to be quoted.

The "brainstorming" retreat involved around 100 members who were clubbed into five different groups, and at the end of the meeting, the DG presented some broad conclusions. The five facilitators of the group discussions were Ambassador Nadia Theodore of Canada; Ambassador Claire Kelly of New Zealand; Ambassador Adamu Mohammed Abdulhamid of Nigeria; Ambassador Petter Olberg of Norway; and Ambassador Hung Seng Tan of Singapore. WTO Deputy Director-General Angela Ellard assisted the facilitators.

At the beginning of the meeting, the Rome-based Food and Agriculture Organization of the United Nations (FAO) provided a comprehensive report on the state of the oceans, particularly in regard to fish stocks. It is learnt that FAO reported that there has been an increase in the overall fish catch in all major oceans, while there is also a considerable increase in fish sustainability measures.

"Legal scrubbing"

During the meeting, it appears that there was considerable discussion about whether members should wait for a "legal scrubbing" of what was agreed in the partial fisheries subsidies agreement adopted at the WTO's 12th Ministerial Conference (MC12) on 17 June, or whether this should be considered only after the final agreement was concluded at MC13 in 2024, said people who asked not to be quoted.

The need for "legal scrubbing" of the agreement adopted at MC12 was initially raised by the United States at a WTO General Council meeting in July. This was opposed by the European Union, Australia and several other countries, which said it would amount to reopening the agreement.

Subsequently, the US appears to have rowed back on the need for "legal scrubbing", saying that it was ready to implement the agreement but without giving any timeframe, said people familiar with the discussions.

Sri Lanka raised the issue at the Evian meeting, underscoring the need to go through "legal scrubbing". However, several other developing countries, including South Africa, Indonesia and India, gave the "green light" to ratify the agreement reached in June. Indonesia apparently suggested that "legal scrubbing" must be conducted after the final agreement is concluded, said people who asked not to be quoted.

Value of partial agreement

Several members and analysts questioned whether the partial agreement on fisheries subsidies adopted at MC12 will deliver any concrete environmental sustainability outcomes.

There are also serious questions as to whether the agreement is in line with the UN Sustainable Development Goal (SDG) target 14.6, though the DG had said that "the conclusion of the agreement marks the first Sustainable Development Goal target that has been fulfilled - 14.6."

SDG target 14.6 states: "By 2020, prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, eliminate subsidies that contribute to 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."

According to the SDG 14.6 template, the fisheries subsidies agreement ought to have addressed/concluded the disciplines on fisheries subsidies that contribute to overcapacity and overfishing due to their harmful effects in depleting global fish stocks.

However, the draft text relating to this pillar – which preserved the subsidies of the biggest subsidizers such as the EU, the US, Canada, Japan, South Korea, Chinese Taipei and China – was left out of the MC12 agreement due to sharp differences among members over the lack of balance and stringent SDT provisions.

At the Evian retreat, the DG reminded members of the "importance and urgency" for countries to deposit their instruments of acceptance of the current agreement, which will only enter into force once two-thirds of the WTO's 164 members do so. "For the sake of the ocean and of the people whose livelihoods depend on it, it is critically important for members to deposit their instruments of acceptance of that Agreement as soon as possible so that it can begin to deliver concrete results," the DG said.

So far, no WTO member has ratified the agreement even though several members indicated that they will do so soon.

In short, it is not clear how soon the agreement will be ratified by the members and when the second phase of the negotiations – involving the disciplines in the overcapacity and overfishing pillar and appropriate and effective SDT provisions – will proceed, said a trade envoy who asked not to be quoted.

During the Evian meeting, members apparently discussed the texts to follow during the second phase. It appears that the MC12 agreement and the text issued by the chair of the negotiations in early June will form the basis for this phase, the trade envoy said.

Several developing countries seem to have pressed for incorporating the issue of non-specific fuel subsidies, which was omitted by the chair in his June text, the trade envoy said.

Some Southeast Asian countries reportedly called for discussing the issue of forced labour in the fisheries sector, which was one of the major priorities for the US in the fisheries subsidies negotiations, said people who asked not to be quoted.

China had vehemently opposed the inclusion of this issue in the negotiations, and consequently it was left out from the talks.

The work programme for the second phase of the negotiations was also discussed at the retreat. There seems to be broad concurrence among the members for conducting several fisheries weeks and even some ministerial meetings, as was done in 2021. Members apparently agreed to start actual negotiations from next year, said a participant who asked not to be quoted.

Also, the issue of deciding on the new chair of the Doha rules negotiating body, which oversees the fisheries subsidies negotiations, came up during the retreat, as this position has become vacant after the previous chair, Ambassador Santiago Wills of Colombia, was made the Director of the Council Division at the WTO secretariat.

Currently, there are two candidates vying for the chair's post. The Asian Group of developing countries has nominated Ambassador Gothami Silva of Sri Lanka as their candidate, while the group of developed countries has nominated Norway's Ambassador Petter Olberg. *(SUNS9665)*

Systemic implications of DG's "reflections" on investment for trade

A proposal by the WTO chief aimed at drawing on private finance to improve developing countries' trading capacity raises several concerns, writes *D. Ravi Kanth*.

GENEVA: World Trade Organization Director-General Ngozi Okonjo-Iweala has suggested modernizing the Aid for Trade (AfT) initiative into "Invest for Trade" (IfT) to accord a pivotal role for the private sector and private investment, in what appears to be a systemic shift that could go against a WTO Ministerial Conference mandate, said people who asked not to be quoted.

Speaking at the WTO's General Council meeting on 7 October, the DG said the AfT initiative "has played a very important part in helping build trade-related infrastructure and supply-side capacity, but it's also time to update and modernize the initiative."

In her statement, which was released as a restricted WTO document and was seen by the *South-North Development Monitor* (*SUNS*), Okonjo-Iweala underscored the need for a switch in the AfT approach, saying that it "has emerged strongly from the 8th Global Review of Aid for Trade which was held in late July."

The DG said "there is a clear desire that is already translating into action to move global initiatives towards sustainable development models of

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growth and trade." She highlighted "models that are inclusive, sustainable and that capture the economic diversification possibilities offered by both green and digital technologies."

While saying "we have an opportunity to capture these new insights in a new Aid-for-Trade Work Programme," the DG added that "more than that I think we also have an opportunity to recast and reinvigorate the great work undertaken through this Initiative."

Therefore, according to the DG, "it's time to move to an Invest for Trade approach", ostensibly "for the least developed countries".

Okonjo-Iweala said "official development assistance needs to work in tandem with and mobilize other sources of finance", adding that "one part of the solution is international investment flows."

She said that while public funds "are coming on-stream in the form of climate finance and financial sector initiatives such as the Glasgow Financial Alliance for Net Zero, there is also a growing stock of private financing chasing environmental, social and governance returns."

(Several major industrialized countries, including the United States and the European Union, had made some rather bold claims at the UN climate change conference in Glasgow last year that private investment flows will enable climate finance. However, indications are that such claims have remained only on paper.)

"If we put these elements together," said the DG in her statement, "it is clear to me that a repositioning of the Initiative is needed. A realignment that ensures that we capture the opportunities for sustainable trade and export diversification."

She said that "moving to an 'invest for trade' approach recognizes that developing countries are of course the authors of their own development. Ownership of the development process by developing countries is of course an essential starting point."

She stated that this change "in the narrative is empowering and inclusive, both themes that should of course appear in the new Work Programme."

"And ranking highly either as a donor, South-South partner or recipient of 'invest for trade' flows seems more meaningful as a measure than a purely aid-based calculus," the DG said.

She claimed that these are merely her "reflections", saying that "you the Members are in the driving seat to set the new course for the next biennium of Aid-for-Trade activities."

She expressed hope that members "will seize the opportunity to provide a sound future basis for this much-needed Initiative."

Serious questions

The DG's approach is seen as a somewhat radical departure from the original mandate of the AfT initiative that was approved by trade ministers at the WTO's 6th Ministerial Conference in Hong Kong in 2005.

Paragraph 57 of the Hong Kong Ministerial Declaration, under the sub-heading of "Aid for Trade", states: "We welcome the discussions of Finance and Development Ministers in various fora, including the Development Committee of the World Bank and IMF, that have taken place this year on expanding Aid for Trade. Aid for Trade should aim to help developing countries, particularly LDCs [least developed countries], to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly expand their trade. Aid for Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the DDA [Doha Development Agenda], particularly on market access. However, it can be a valuable complement to the DDA ..."

At a time when the DDA is being almost "erased" by the current dispensation at the WTO in tandem with the major developed countries, any change in the AfT mandate or to transform it into "Invest for Trade" will require a ministerial mandate.

The DG maintains that "it's time to move to an Invest for Trade approach" "for the least developed countries – a fact recognized in the MC12 Outcome Document". However, the language in paragraph 8 of the outcome document from the 12th Ministerial Conference merely states: "We recognize the importance of Aid for Trade initiatives in trade-related capacity building for the LDCs. We recommend that such programmes prioritize the objectives identified by the LDCs."

Nowhere in the MC12 outcome document is it suggested that the "Invest for Trade" approach is for the LDCs.

Furthermore, expanding the AfT initiative to include private finance raises several questions, as the WTO is a member-driven organization where members agree on the rules between governments.

The problem with the private sector is that it is not bound by the principles laid out in the Paris Declaration on Aid Effectiveness. There are also issues like how one could ensure that private finance was mobilized without official assistance, said people who asked not to be quoted.

It is well known that private investments could come with some form of sovereign guarantees under which international investors could challenge sovereign governments in global investment tribunals. Some of these guarantees, if known, could be quantified and should actually be subtracted from the investment amount to obtain the net private flow.

Further, the United Nations Sustainable Development Goals (SDGs) such as SDG 17.11 and even SDG 11.2 and SDG 9.2 seem to be aligned to the Aid for Trade initiative.

SDG 17.11 calls for significantly increasing "the exports of developing countries, in particular with a view to doubling the least-developed countries' share of global exports by 2020."

Yet, the LDCs seem to be pushed into poly-crises due to the worsening debt trap, the COVID-19 pandemic, and now the unilateral inflation-pivot policies adopted by the US Federal Reserve.

In a similar vein, SDG 9.2 states: "Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries."

The DG seems to have glossed over the fact that investment flows are fundamentally different from aid.

Interestingly, however, at a meeting on Aid for Trade on 11 October, the chair of the WTO Committee on Trade and Development, Ambassador Usha Canabady of Mauritius, apparently presented the ideas by the DG as a fait accompli.

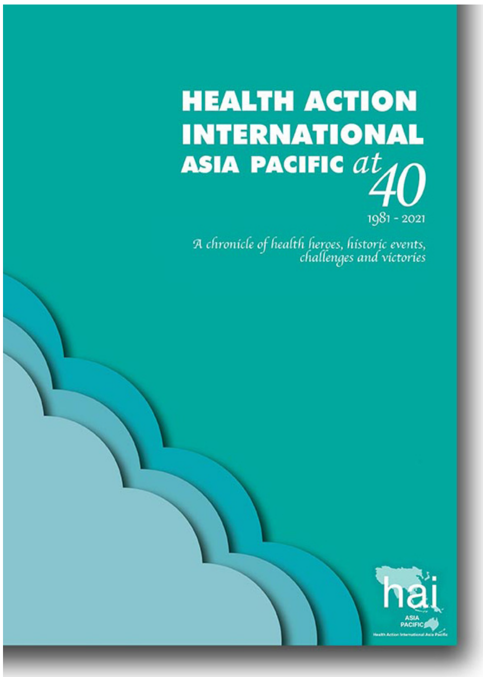
Canabady suggested that members are now expected to renegotiate the new AfT work programme by changing its nomenclature to "Invest for Trade", including revising the task force recommendations, said people familiar with the meeting.

Without having fulfilled the objectives of Aid for Trade, including the SDGs, the DG's ideas to expand the initiative to include private finance raises fundamental questions about the member-driven nature of the organization and the role the private sector is expected to play.

This is another illustration of the so-called reform that is taking place incrementally across the board in the WTO when developing-country missions are spread too thin on the ground to cover all the meetings and voice their views.

Therefore, the LDCs must remain vigilant about the dangerous implications of the DG's new gameplan to bring about investment for trade by replacing the Aid for Trade initiative, said people who preferred not to be quoted. *(SUNS9668)*

Health Action International Asia Pacific at 40 (1981-2021)



A Chronicle of Health Heroes, Historic Events, Challenges and Victories

Prepared and edited by Beverley Snell

Published by Third World Network, Health Action International Asia Pacific, International Islamic University Malaysia, Gonoshasthaya Kendra, and Drug System Monitoring and Development Centre

This book commemorates the 40th anniversary of Health Action International Asia Pacific (HAIAP), an informal network of non-governmental organisations and individuals in the Asia-Pacific region committed to resistance and persistence in the struggle for Health for All Now.

HAIAP is the regional arm of Health Action International – upholding health as a fundamental human right and aspiring for a just and equitable society in which there is regular access to essential medicines for all who need them. HAIAP works with governments, academic institutions and NGOs at community, national and regional levels on issues such as promoting the essential medicines concept, equitable and affordable access to essential medicines, rational use of medicines, ethical promotion and fair prices. While promoting awareness of the impact of multilateral agreements, particularly TRIPS and GATT, on access to affordable healthcare and essential medicines, HAIAP advocates for poverty eradication and action on other priority themes relevant to countries in the Asia-Pacific region.

Available at https://twn.my/title2/books/HAIAP%20at%2040.htm

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Ideology and dogma ensure policy disaster

Wrong-headed policy measures such as interest rate hikes and tax cuts will only hurt, not help, efforts to contain today's economic troubles.

by Anis Chowdhury and Jomo Kwame Sundaram

Central banks (CBs) around the world – led by the US Federal Reserve, European Central Bank and Bank of England – are raising interest rates, ostensibly to check inflation. The ensuing race to the bottom is hastening world economic recession.

New UK Prime Minister Liz Truss has already revived "supply-side economics", long thought to have been fatally discredited. Her huge tax cuts are supposed to kickstart Britain's stagnant economy in time for the next general election.

But studies of past tax cuts have not found any positive link between lower taxes and economic or employment growth. Oft-cited US examples of Reagan, Bush or Trump tax cuts have been shown to be little more than economic sophistry.

Reagan's Council of Economic Advisers chairman, Harvard professor Martin Feldstein found most Reagan-era growth to be due to expansionary monetary policy. Volcker's interest rate hikes to fight inflation were reversed. This enabled the US economy to bounce back from its severe 1982 monetary-policy-inflicted recession.

George W. Bush's 2001 and 2003 tax cuts also failed to spur growth. Instead, deficits and debt ballooned. "The largest benefits from the Bush tax cuts flowed to high-income taxpayers." Likewise, Trump tax cuts failed to lift the US economy, with billionaires now paying much less than workers.

After Boris Johnson stepped down, UK Conservative Party leadership contenders started by promising more tax cuts. But *The Economist* was "sceptical that such cuts will lift Britain's growth rate". Instead, it worried tax cuts would compound inflationary pressures, triggering ever-tighter monetary policy.

The Economist concluded, "It is hard to spot a connection between the overall level of taxation and long-term prosperity." Unsurprisingly, it sees Truss's "largest tax cuts in half a century" as "a reckless budget, fiscally and politically".

While such tax cuts mainly benefit the very rich, the costs of such monetary and fiscal policies are borne by workers and other consumers. Workers are harshly punished by austerity measures, losing both jobs and incomes to interest rate hikes.

Tax cuts usually make things worse. Typically, these require cutting social protection and essential public services, ostensibly to balance the budget. So, already greater wealth and income inequalities will worsen.

Governments have to cut public investments due to ballooning budget deficits. Higher interest rates and public spending cuts will also derail efforts needed to transition to more sustainable, greener futures.

Class war

Policy fights over inflation have many dimensions, including class. Instead of helping people cope with rising living costs, increasing interest rates only makes things worse, hastening economic slowdowns. Thus, workers not only lose jobs and incomes, but are also forced to pay more for mortgages and other debts.

Unemployment, lower incomes, deteriorating health and other pains hurt workers. As workers want higher incomes to cope with rising living expenses, such austere policies are deemed necessary to prevent "wage-price spirals".

As usual, workers are being blamed for the resurgence of inflation. But research by the International Monetary Fund (IMF) and others has found no evidence of such wage-price spirals in recent decades.

Experience and evidence suggest very low likelihood of such dialectics in current circumstances, although some nominal wages have risen. Since the 1980s, labour bargaining power and collective wage determination have declined.

Policymakers should address stagnant, even declining real wages in most economies in recent decades. These have hurt "low-paid workers much more than those at the top". Even the Organization for Economic Cooperation and Development (OECD) club of rich countries has "worryingly" noted these trends.

The IMF Deputy Managing Director has explained why wages do not have to be suppressed to avoid inflation. Letting nominal wages rise will mitigate rising inequality plus declining labour income shares and real wages.

Profit margins had already risen even before the Ukraine war and sanctions. US trends prompted the Bloomberg headline, "Fattest Profits Since 1950 Debunk Wage-Inflation Story of CEOs". Aggregate profits of the largest UK non-financial companies in 2021 rose 34% over pre-pandemic levels.

Policymakers should therefore restrain profits, not wages. Recent price increases have been due to rising profits from mark-ups. Recent trends have made it "easier for firms to put their prices up", notes the Reserve Bank of Australia Governor.

The IMF Managing Director (MD) recently warned, "People will be on the streets if we don't fight inflation." But people are even more likely to protest if they lose jobs and incomes. Worse, the burden of fighting inflation has been put on them while the elite continues to enrich itself.

Raising interest rates is a blunt means to fight inflation. It worsens living costs and job losses, while tax cuts mainly benefit the rich. Instead, the rich should be taxed more to enhance revenue to increase public provisioning of essential services, such as transport, health and education.

The IMF MD noted raising taxes on the wealthy will help close the yawning gap between rich and poor without harming growth. Public provision of childcare and labour market programmes (e.g., retraining) will improve labour supply. Easing worker shortages can thus dampen price pressures.

The current situation requires addressing growing inequality.

Redistributive fiscal measures – taxing high earners to fund expanded social protection and public provisioning – are time-tested means to address disparities.

Increasing top tax rates and tax system progressivity are also socially progressive, checking growing inequality. Meanwhile, as consumer prices spiral, rising profits and high executive remuneration have to be checked.

Supply-side policies

The heads of the World Bank and the Bank for International Settlements have urged reducing the current focus on demand management to counter inflation. They both insist on addressing long-term supply bottlenecks, but do not offer much practical guidance.

Poorly coordinated "unconventional" monetary policies since the 2008-09 global financial crisis have created property and stock market bubbles. These damage the real economy, worsen inequality and slow labour productivity growth, with the worst spillover effects in developing counties.

Addressing supply bottlenecks can involve tax incentives and credit policies. But discredited supply-side mantras – such as labour market deregulation – must be discarded. Related fiscal and monetary policies – such as tax cuts for the rich and inappropriate interest rate hikes – should also be abandoned.

Governments are losing chances to boost productivity, achieve low-carbon transformation and cut inequalities. Instead, policymakers should proactively push desired economic changes by favouring less carbon-intensive and more dynamic investments.

This may also require checking CBs' monetary policy independence in order to more effectively coordinate fiscal with monetary policies. But this should not undermine CBs' "operational independence" to foster "orderly economic growth with reasonable price stability".

Governments must rise to the extraordinary challenges of our times with pragmatic, appropriate and progressive policy initiatives. To do this well, they must boldly reject the ideologies and dogmas responsible for our current predicament. *(IPS)*

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Development banks should reform their lending practices

An adjustment in how multilateral lenders hand out loans can help low-income countries struggling with financial shortfalls and falling currencies.

by Alexander Kozul-Wright and Ruurd Brouwer

In the last week of September, emerging market (EM) bond fund outflows hit $4.2 billion, according to JP Morgan, bringing this year's total to a record $70 billion.

The exodus, set off by a rising US dollar, is heaping pressure on low-income countries. The greenback's rise has been fuelled by interest-rate hikes by the US Federal Reserve. Since March, the Fed has raised rates by three percentage points, prompting global investors to move their funds into US financial assets and away from (riskier) EM investments.

While economists continue to wrangle over their US growth forecasts, this "flight to quality" has sent financial shockwaves across the developing world, already straining under elevated costs for food and fuel – typically priced in US dollars.

Moreover, attempts by EM policymakers to stem the dollar's rise have largely failed. Over the course of this year, central banks around the world have drained their US dollar reserves at the fastest rate since 2008. To stem currency depreciations, they have also raised interest rates aggressively. In Argentina, for instance, policymakers raised rates to 75% in September. To little avail.

The MSCI Emerging Market Currency Index, which measures the total return of 25 emerging market currencies against the US dollar, is down nearly 9% from 1 January. The Egyptian pound has depreciated by 20% over the same period, according to Bloomberg data. In Ghana, the cedi has fallen by 41%.

On top of higher import costs, a plunging currency makes the servicing of dollar-denominated debt more expensive. This concern may seem abstract to people in advanced economies. In developing nations, however, the effects are painfully real.

As the dollar appreciates relative to other currencies, more domestic currency (in the form of tax revenues) has to be generated to service existing dollar debts. For low-income governments, budget cuts have to be implemented in the hope of avoiding sovereign default.

Currency depreciations have the power to strongarm authorities into reducing health and education spending, just to stay current on their debts. This leaves officials with a grim choice: either risk unleashing a full-blown debt crisis, or confiscate essential public services.

Given the painful costs of insolvency, governments tend to prioritize austerity over bankruptcy. Together with the oft-publicized effects of lost access to foreign investment, subdued growth and high unemployment, sovereign default also imposes severe social tolls. In August, the World Bank published a paper measuring the decline in country living standards

– looking at access to food, energy and healthcare – after state bankruptcies. The paper showed that 10 years after default, countries experience 13% more infant deaths per year, on average, compared with the synthetic control (counterfactual) group.

Multilateral loans

Admittedly, more developed emerging markets like Brazil and India can issue bonds in their own currency to limit budget cutbacks. In most of the world's poor countries, however, financial markets are too shallow to support domestic lending.

With no recourse to borrow from private creditors, public bodies like multilateral development banks (MDBs) usually step in to fill the gap. Indeed, almost 90% of low-income countries' (LICs) funding takes the form of concessional, or non-commercial, loans from official lenders.

Even accounting for these favourable terms, financial pressures are beginning to build outside of well-known hotspots like Lebanon, Sri Lanka and Pakistan. As it stands, LICs have outstanding debts to MDBs and other official creditors to the tune of $153 billion (mostly denominated in USD).

Given the exogenous trigger for capital outflows from developing countries this year, multilateral lenders need to be more innovative. Where possible, they should use their robust credit ratings to assume greater risk by lending to poor countries in domestic currencies.

Failing that, they could lend in synthetic local currencies. These instruments index dollar debts to local exchange rates, allowing borrowers to service liabilities in their own currency while ensuring that creditors receive payments (both interest and principal) in dollars.

Synthetic currencies can improve debtor credit profiles by limiting foreign capital outflows and, by extension, improve debt management capacity. In particular, they boost economic resiliency by making government finances less a function of international currency volatility.

Multilateral financial institutions have been tasked with designing a stable international monetary system to try and ease global poverty. But the loans provided by these groups undermine their own mission, as dollar debts force currency risk onto the countries least able to handle it. By adjusting their lending practices, these institutions have a unique opportunity to relieve suffering in the world's poorest countries. *(IPS)*

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Social grants offer cash, but they aren't a magic-bullet response to inequality

While social protection systems can contribute to more inclusive economic growth, they leave intact the exploitative structures which perpetuate inequality in the first place.

by Ruth Castel-Branco

Over the last three decades, there has been a proliferation of social protection programmes across the Global South in what some have dubbed a development revolution. International development agencies across the ideological spectrum have embraced social protection as an effective and efficient instrument to reduce poverty and inequality.

The advent of digital technologies has further strengthened support for social protection, including among development agencies sceptical of local state administration. Payments can be delivered electronically directly into the pockets of the poor. This seemingly circumvents networks of patronage and corruption.

This apparent counter-movement in development thinking reflects a growing consensus that economic growth does not invariably lead to a reduction in poverty and inequality. Social protection can play an important role in ensuring inclusive growth by providing income support along the life cycle.

However, measures tied to employment such as social insurance have limited reach given widespread unemployment and growing informality. Women, in particular, have been excluded due to gender discrimination. Therefore, publicly funded cash transfers are a key pillar of any strategy towards universal social protection. And studies show that they are affordable at all stages of economic development.

But cash transfers are not a magic-bullet response to poverty and inequality.

Economist Thandika Mkandawire warned about the diminution of social policy to cash transfers. He said it would ultimately leave unchecked the structures of accumulation which dispossessed, exploited and excluded the working classes in the first place. It also threatened to reproduce highly stratified, segmented and segregated forms of social provisioning.

Take the example of South Africa. It has one of the most expansive cash transfer systems, buttressed by a progressive tax structure. It provides nearly half of the population with publicly funded cash transfers. Yet it remains the most unequal country in the world, both in terms of income and wealth, and along the lines of race, gender and geography.

So, what role can social protection play in reducing inequality?

In my view, social protection is fundamentally contradictory. On one hand, it reflects the relative surplus value which the working classes have been able to claw back from capital via the state. On the other hand, it has historically served to preserve rather than disrupt exploitative processes of accumulation under capitalism. Ultimately, the impact of social protection on inequality depends on its terms, which in turn are shaped by the relative balance of power between social forces.

No guarantees

The objectives of social protection have varied across time and place. Its terms have been influenced by dominant conceptions of citizenship, underlying assumptions about the roots of poverty and inequality, and ideological positions vis-a-vis the state.

To be sure, social protection has the potential to decommodify labour. It can enable people to pursue meaningful activities outside the labour market. It can reduce social stratification through the provision of universal, high-quality benefits, complemented by other meaningful forms of public provisioning. However, as history shows, this is not guaranteed.

Across colonial Africa, the majority were excluded from emerging forms of social protection by racist labour-citizenship regimes. In Mozambique, for instance, social insurance was only available to "skilled" and "semi-skilled" workers. Four-fifths of these were white. Meanwhile, "unskilled" workers, all of whom were black, were excluded. The official justification was that they did not have contributory capacity. Colonial officials further claimed that black workers could rely on the mythical rural family.

At independence, many postcolonial African states introduced expansive social policy measures. But the structural adjustment programmes of the 1980s and 1990s resulted in the rollback of public provisioning.

Paradoxically, it was during this period that development agencies began to embrace cash transfers as a response to the fallout from structural adjustment. This led some scholars to argue that cash transfers were little more than a smokescreen to eliminate more radical forms of redistribution.

Since then, there has been a consolidation and expansion of social protection systems across Africa. But only 17.4% of Africans are effectively covered by at least one social protection programme. Most cash transfers are short-term, highly targeted and insufficient to meet households' reproductive needs.

It is in this context one could argue that cash transfers have a limited impact on poverty and inequality.

From short-term transfers to long-term entitlements

The COVID-19 pandemic propelled governments across the globe to introduce unprecedented social protection measures. These included one-off universal payments, short-term cash transfers for informal workers, and the extension of employer responsibility. However, the pandemic also exposed the fragility of social protection systems.

In Mozambique, for instance, the government approved a cash transfer of 1,500 meticais (about $23.50) over a period of six months. This was provided to vulnerable households in urban and peri-urban areas. It also covered the province of Cabo Delgado under insurgency. But the transfer was entirely funded by development agencies.

The reliance on foreign funds subjected the state to the whims of World Bank conditionalities. These included the outsourcing of cash transfer payments to private service providers. Ultimately, the conditionalities proved impossible to implement. This undermined the pandemic response.

Globally, most COVID-19 measures have been short-term. But civil society organizations in some countries have been mobilizing for them to be institutionalized and expanded through a universal basic income guarantee.

Proponents of the grant argue that it would fill the cracks of the social protection system. These largely exclude able-bodied adults of working age. It would also enable people to pursue more meaningful activities outside the labour market, such as unpaid care work. Finally, it has the potential to boost economic activity and increase investment, all while promoting social cohesion.

However, critics point out that a universal basic income guarantee is only meaningful if set at a high enough level for recipients to be able to withdraw from the labour market. In addition, its impact can be easily eroded by other aspects of life such as the commodification of public services.

And finally, it can be unsustainable, if it ends up absolving employers of the responsibility to provide labour and social protection. In other words, it is important not to let capital off the hook.

Towards a transformative social policy

Social protection alone cannot fundamentally change the organization of production and the structure of accumulation which lie at the heart of deepening inequality. Nonetheless, social protection can play a transformative developmental role. What form social protection takes is a matter of political contestation between social forces.

For the International Labour Organization, a high-road approach would involve universal, comprehensive, adequate and sustainable social protection systems. The Social Protection Floors Recommendation proposes the extension of coverage through publicly funded minimum guarantees along the life cycle, and higher-quality benefits through many policy instruments, including social insurance.

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The IMF and World Bank must support public services

The IMF and the World Bank are failing to protect public services, pushing instead for government austerity and the private takeover of such services. The following is the executive summary of a new report which rejects this trend and underlines the need to build "a future that is public".

The COVID-19 pandemic exposed the failures of austerity policies and the detrimental consequences of the systemic underfunding of public services for people's lives. It also highlighted how market-based models cannot be relied upon to deliver on human rights and the fight against inequalities. The upsurge in the cost of living in 2022 and the increasingly frequent natural disasters associated with the climate crisis further highlight the failures of the current economic model and the urgency of building a different one.

The World Bank and the International Monetary Fund (IMF) have positioned themselves as the "first responders" to the multiple crises of the past three years. This larger role has made more evident their often problematic approach to public services and the gap that both institutions maintain between their occasionally progressive global rhetoric on public services and their practices at country level.

The widening gap between IMF rhetoric and practice on public services

In the past decade, the IMF has been arguing that it has learnt from past mistakes and that it has rectified practices to safeguard essential public spending. It points to instruments such as social spending floors and its strategies on social spending, gender and inequality. However, civil society has for years been denouncing a substantial gap between the IMF's rhetoric and its actual practice, including maintaining an arm's-length approach to human rights obligations. Abundant evidence suggests that IMF policy advice and lending continue to prioritize fiscal adjustment over achieving adequate levels of public spending that guarantee universal access to quality public services.

Measures such as constraints to public sector wages, narrow targeting of social protection, cutting subsidies and increasing value-added tax (VAT) continue to be routinely prescribed. Despite some short-term increase in health expenditure and targeted social protection at the peak of the pandemic, since late 2020 several studies have documented an aggressive and premature return to austerity, in large part instigated by the IMF. The most recent estimates by Ortiz and Cummins indicate that 143 countries (of which 94 are developing countries) will contract their spending in 2023, meaning that 85% of the world population will live under austerity measures.

World Bank and public services: for profit or for the common good?

Far from using the COVID-19 and subsequent crises as an opportunity to rethink a broken economic model and put public services at the core of its response, the World Bank has continued to adhere to its blueprint for development. In the past two years, it has published (at least) four papers that set out its response to the current crises, and all reiterate a vision that is no different from that which was pursued before the pandemic.

This vision reserves a central role for the private sector and private finance in development and puts macroeconomic stability and fiscal balance ahead of human rights. It favours market-oriented solutions for the delivery of public services and reflects a narrow interpretation of the role of the state, focused on minimizing risk for the private sector. While the weaknesses of the state are continually highlighted, the private sector is rarely challenged. It is asked to step in to provide public services, instead of focusing on the biggest single contribution that it could make to public services: to pay its fair share of taxes, especially on the huge profits that many multinational corporations are making out of the pandemic and the war in Ukraine. Research that has analyzed the World Bank's lending during COVID-19 *in practice*, found that it continued to advise countries to divert public resources to attracting private investment.

The place of public services in the World Bank Group (WBG)'s financing and policy advice, including during the COVID-19 pandemic, clearly reflects this vision. Although the Bank has made significant efforts in supporting countries' health and education response to the pandemic through lending, grants and technical assistance, parts of the institution are pushing forward a market-oriented approach to service provision. The International Finance Corporation (IFC), a member of the WBG, continues to finance commercial private health providers despite evidence that they are not accessible to lower-income groups, and support public-private partnerships (PPPs) in health despite evidence of the risks and failures of this model, such as the premature termination of the WBG-supported Queen Mamohato PPP hospital in Lesotho in full pandemic times.

In education, while much of the Bank's public sector lending provides important support to public education systems, it has increasingly supported and promoted private and market-oriented approaches to the provision of schooling, in particular PPPs and low-fee private schools. However, the IFC recently took the landmark decision to permanently end its investments in K-12 private schools, following a critical report by the Bank's Independent Evaluation Group (IEG). This decision calls for a broad rethinking of the Bank's approach to the education sector, and for a similar review to be conducted by the IEG for the Bank's health sector investment.

The positive alternative: a new manifesto for public services

There is a growing consensus among policymakers about the need to "build back better" economies and societies and that public expenditure in social sectors is the most powerful instrument available to governments to address poverty and inequalities. For these reasons, many of the propositions for change involve reaffirming the central role of public services.

The 2021 manifesto "The Future is Public" (https://futureispublic.org/global-manifesto/manifesto-en/), already endorsed by more than 200 organizations from all over the world, provides an alternative vision for the future, one in which the public is key and must be at the core of the response to the existential challenges that we face. Developed collectively by a wide range of civil society organizations, the manifesto is a demand for universal access to quality public services to address the crises we face and those we will face in the future and to build more sustainable, socially just and resilient societies. It also clearly sets out how funding universal quality public services can be achieved, rejecting false solutions such as blended finance and public-private partnerships and emphasizing reliance on public resources that are fairly and progressively collected and distributed.

Policy recommendations

International financial institutions such as the World Bank and the IMF continue to fail to protect public services, despite their rhetoric arguing the opposite. They must adopt a rights-based approach to public services, meaning that they must unambiguously support strong, publicly provided, publicly financed, gender-sensitive and democratically controlled services that provide universal access and universal coverage. This should be reflected in their financing and support to countries, as well as in their global political influence.

In particular, to close the gap between their rhetoric and practice on public services, the World Bank and the IMF should implement the following 10 points:

1. Increase support for publicly financed and delivered services, and refrain from promoting and financing the commercialization, financialization and privatization of public services including PPPs. Support adequate regulatory capacities and ensure grievance redress mechanisms for citizens utilizing private services
2. Conduct comprehensive independent evaluations of World Bank Group and IMF interventions on public services, including on healthcare access, with a focus on their impact on human rights, poverty and inequalities
3. Adopt a "do no harm" approach through systematic assessment of their policies and programmes on economic and gender inequality and on human rights, including helping countries integrate Human Rights Impact Assessments (HRIA) into their policymaking
4. Support countries to abolish user fees for education and healthcare, and to address other financial barriers to accessing these and other public services, including by providing the necessary financing
5. Put an end to the use of economic policy conditionality, particularly when focused on fiscal consolidation and enhancing the role of the private sector in public services delivery
6. Support countries to increase their fiscal space to build strong, sustainable public services, including by supporting fair and progressive taxation measures and by refraining from promoting regressive tax policies, in particular VAT
7. Review their Debt Sustainability Framework and methodology, in order to evolve towards a more adequate debt sustainability concept, one that includes human rights and other social, gender, climate and development considerations at its core
8. Facilitate debt restructurings and debt cancellation for developing countries in a timely, efficient and sufficient manner, and work towards the creation of a multilateral sovereign debt workout mechanism under the auspices of the United Nations
9. Approve a new allocation of Special Drawing Rights (SDRs), preferably targeted exclusively to developing countries, to create much-needed liquidity to face the crises
10. Protect and support the financing and expansion of the public sector workforce, including by moving away from recommending overall public sector wage bill constraints.

It is time for a new approach to public services, and a break with the mistakes of the past. The World Bank and IMF must do their part with a fundamental shift in their policies and practices that finally closes the gap with their rhetoric. It is imperative that these institutions set out a path for rethinking the role of the state and the private sector in development, one that puts people and the planet before profit and is aligned with international human rights obligations, including on economic, social, cultural and environmental rights, the Sustainable Development Goals and the Paris Agreement. Movements all around the world are already mobilizing to build a future that is public.

The above is the executive summary of "Our future is public: Why the IMF and World Bank must support public services", a report published by the European Network on Debt and Development (Eurodad) and supported by ActionAid, The East African Center for Human Rights, Initiative for Social and Economic Rights, The Global Initiative for Economic, Social and Cultural Rights, Oxfam, Public Services International and Transnational Institute. The report was written and coordinated by Chiara Mariotti, Senior Policy and Advocacy Officer at Eurodad, and is available at https://www.eurodad.org/our_future_is_public_why_the_imf_and_world_bank_must_support_public_services