

A RECOVERY FOR ALL THERE ARE ALTERNATIVES

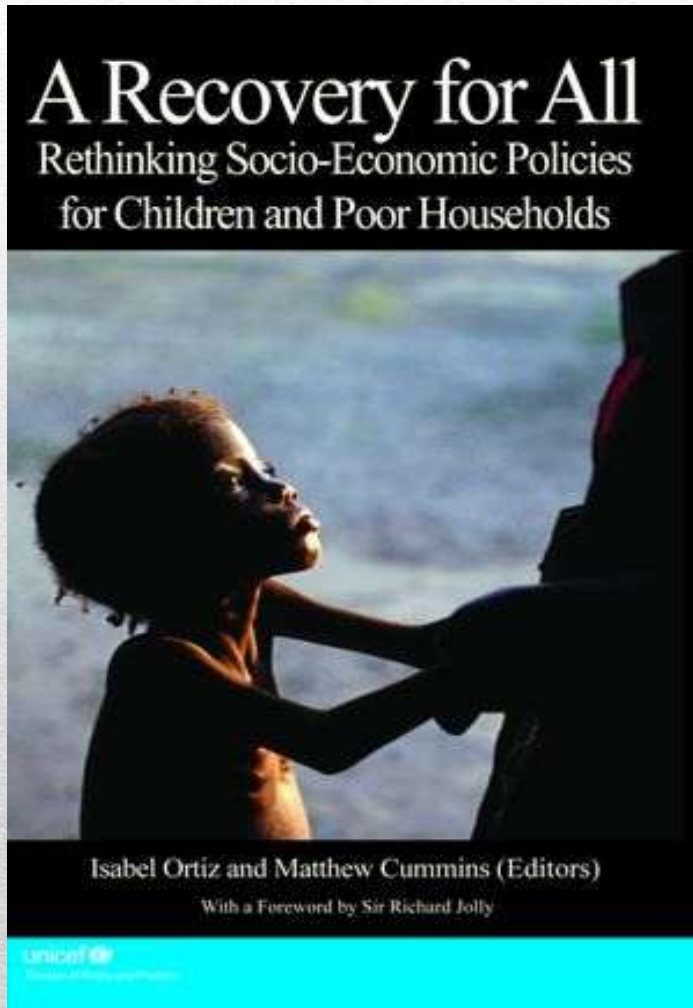
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**Presented by Isabel Ortiz
UN HUMAN RIGHTS COUNCIL**

SOCIAL FORUM

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A Recovery For All



- Social impacts of the crisis and alternatives for a socially-responsive recovery
 - Analysis of public expenditures in all world countries, austerity measures in 158 countries using IMF reports
 - Analysis of food prices, employment, and other data
 - Policy responses by governments to date
 - Policy alternatives supported by the UN
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- Download Ortiz, I. and M. Cummins (eds) 2012: *A Recovery for All*:
<http://arecoveryforall.blogspot.com/>

Be Outraged:

There Are Alternatives

- By group of concerned economists and social scientists with UN background
- Austerity is bad economics, bad arithmetic, and ignores the lessons of history
- Austerity and cutbacks are reducing growth and worsening living conditions
- The financial sector must change from “Bad Master” to “Good Servant”
- There are alternatives at national and international level
- People are suffering unnecessarily
- It is not too late, action is needed now!
- Download: <http://policy-practice.oxfam.org.uk/publications/be-outraged-there-are-alternatives-224184>



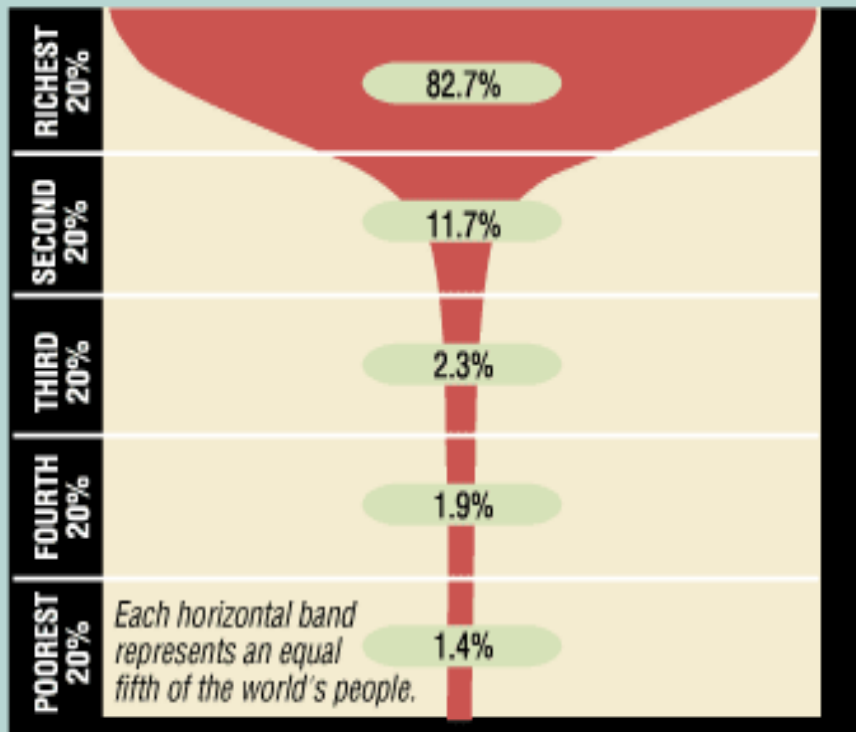
A Crisis on Top of a Human Crisis

Distribution of World Income: Development for whom?

2007: Top 1% (61 million) has the same as the poorest 3.5 billion (or 56%) of the world's population

Distribution of world GDP, 1989

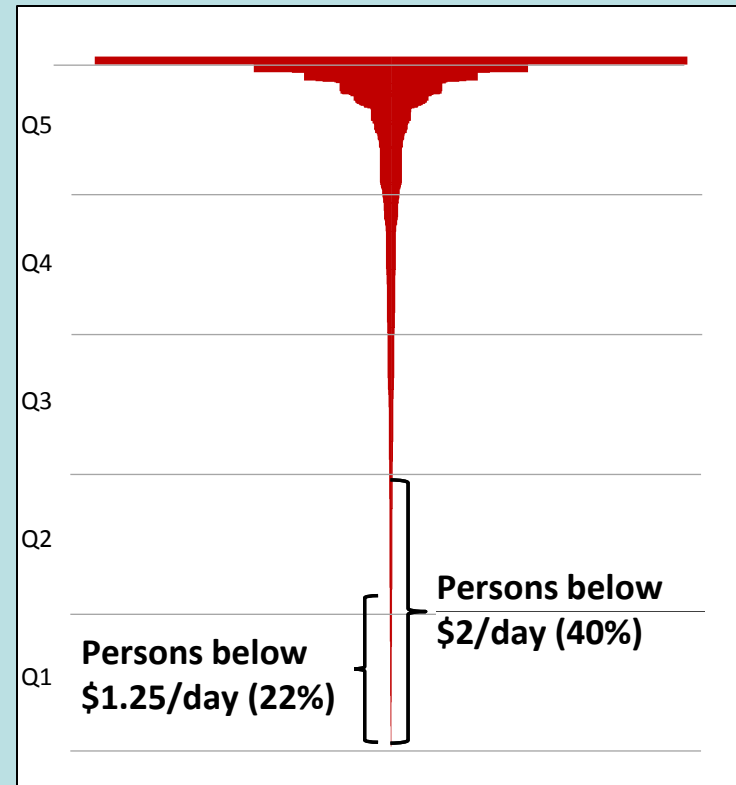
(percent of total, with quintiles of population ranked by income)



Source: United Nations Development Program, 1992, Human Development Report 1992 (New York: Oxford University Press for the United Nations Development Program).

Distribution of world GDP, 2007

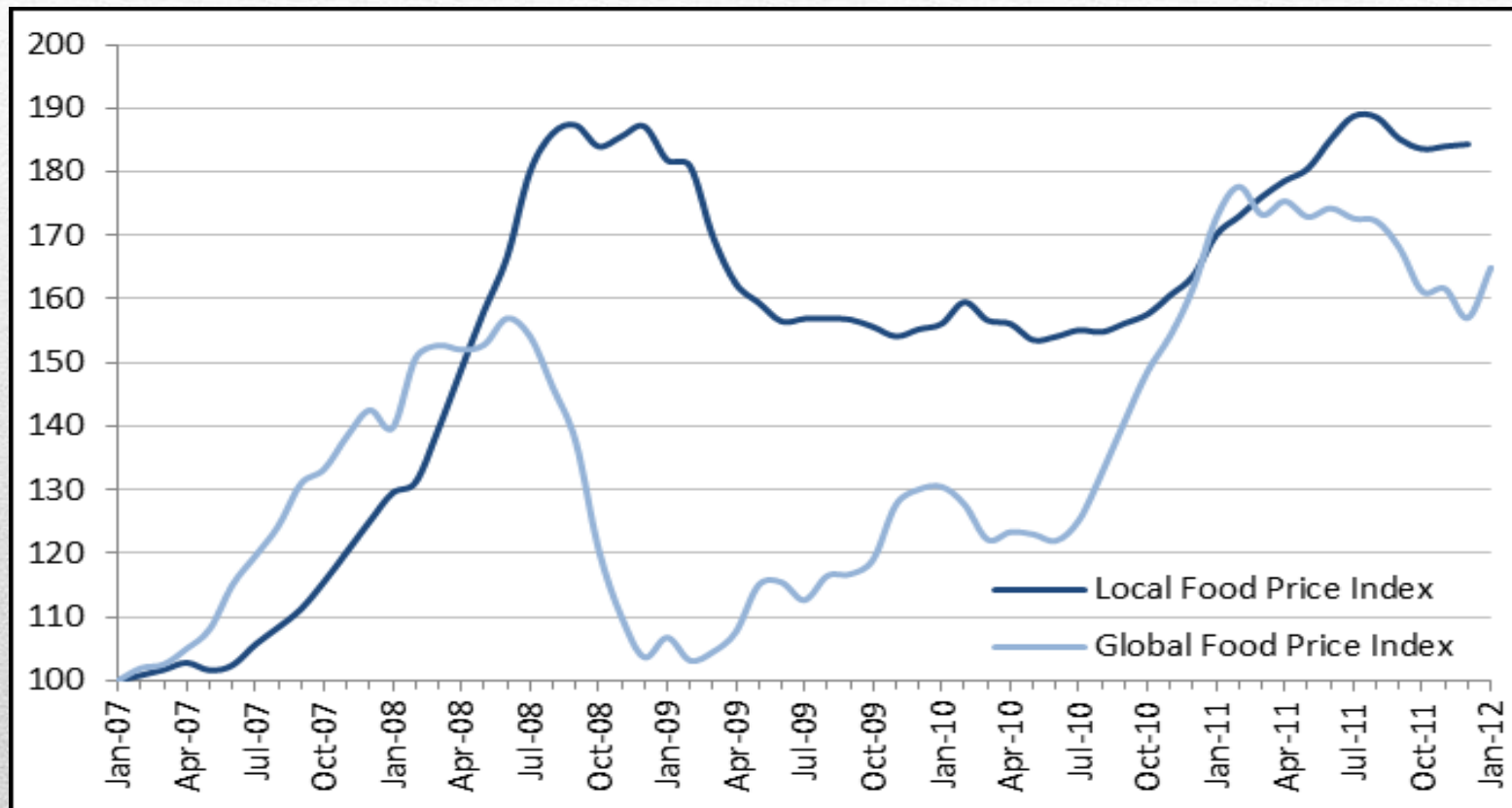
(by quintiles, richest 20% top, poorest 20% bottom)



Source: Ortiz and Cummins 2011. Global Inequality. UNICEF

Food Crisis

Local and Global Food Price Indices, Jan. 2007 to Jan. 2012

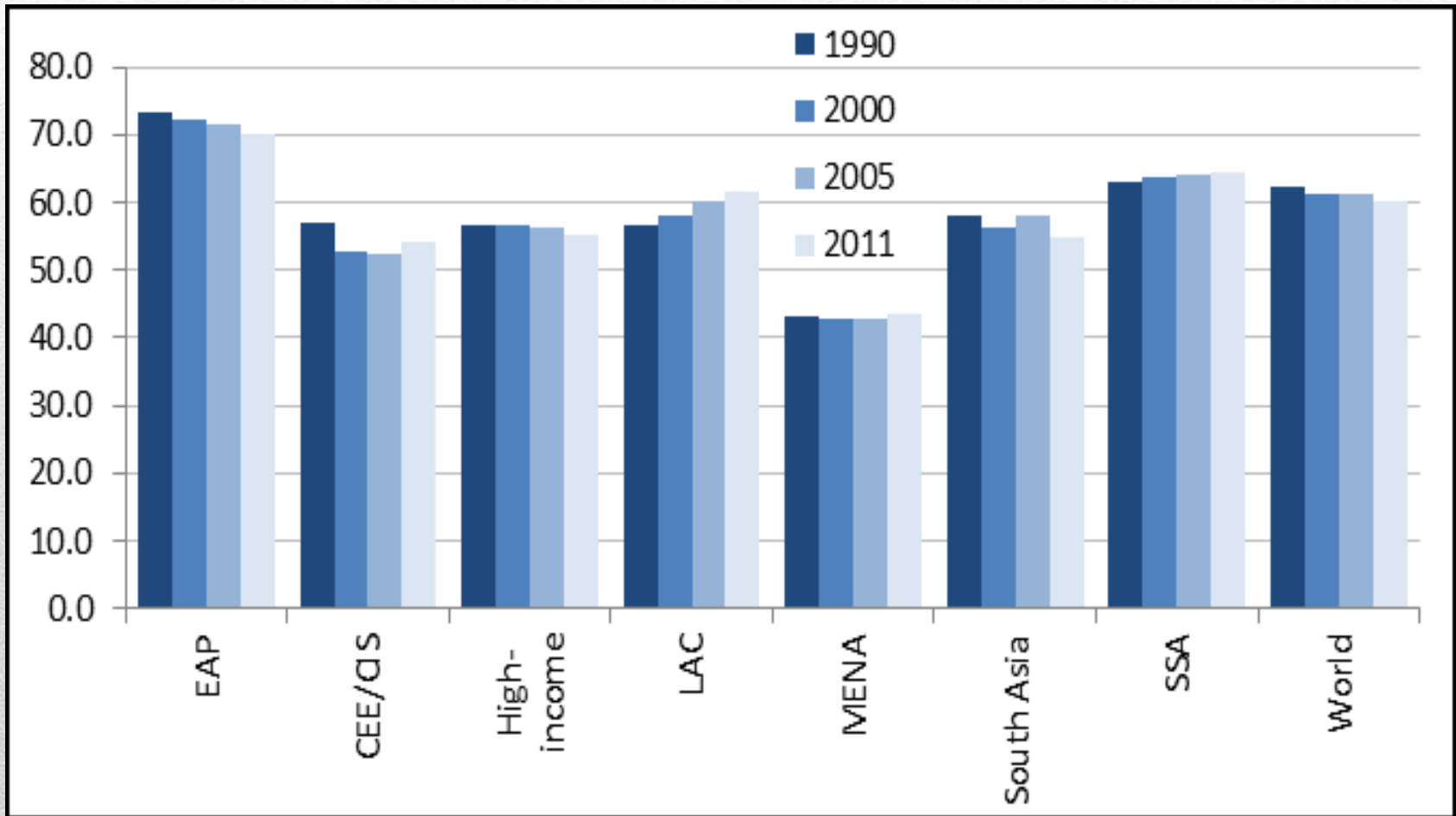


Source: Ortiz and Cummins, 2012: *A Recovery for All*, UNICEF, based on FAO data

Plenty of food in the world – but 1 billion people hungry
Hunger and malnutrition => irreversible impacts on children

The Long Job Crisis

Employment-to-Population Ratios by Regions, 1990-2011

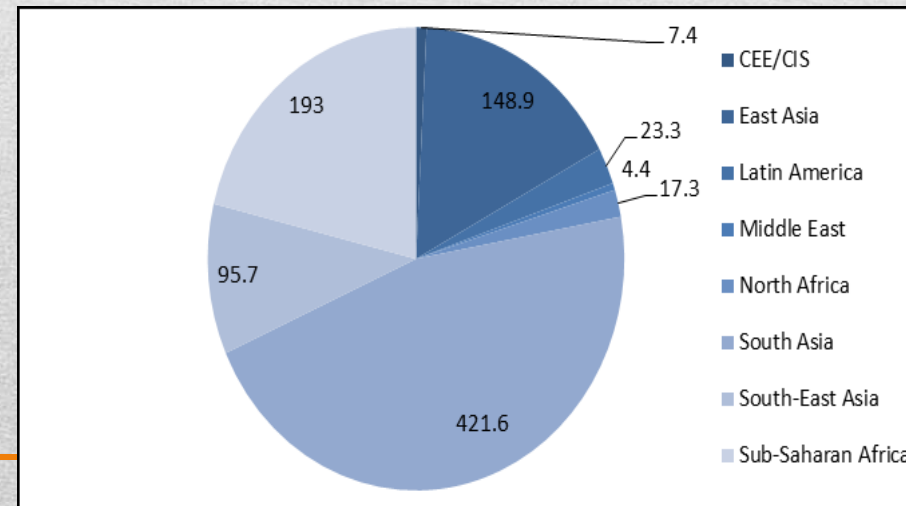


Source: Ortiz and Cummins, 2012: *A Recovery for All*, UNICEF, based on ILO data

Employment: A Human Tragedy

- 1950-75 - Full employment was a macroeconomic priority in post war period – High income countries achieved very low rates of unemployment, developing countries high rates of growth
- 1970s - Policy change due to raising oil prices and debt - unemployment rose, more flexible employment and less job security
- 1980s-90s – Developing countries IMF and Bank conditional support – “the lost decades of development” - by the mid-1990s, 57 developing countries had become poorer in per capita income than 15 years earlier.
- By 2010 – A human tragedy:
 - 2 out of every 5 workers in the world without employment (40% of the global labor force)
 - 120 million new young workers are entering the global labor market each year, nearly 90% in developing countries
 - 900 million people are working poor
- ~~2010 – Labor flexibilization reforms at a time of high unemployment~~

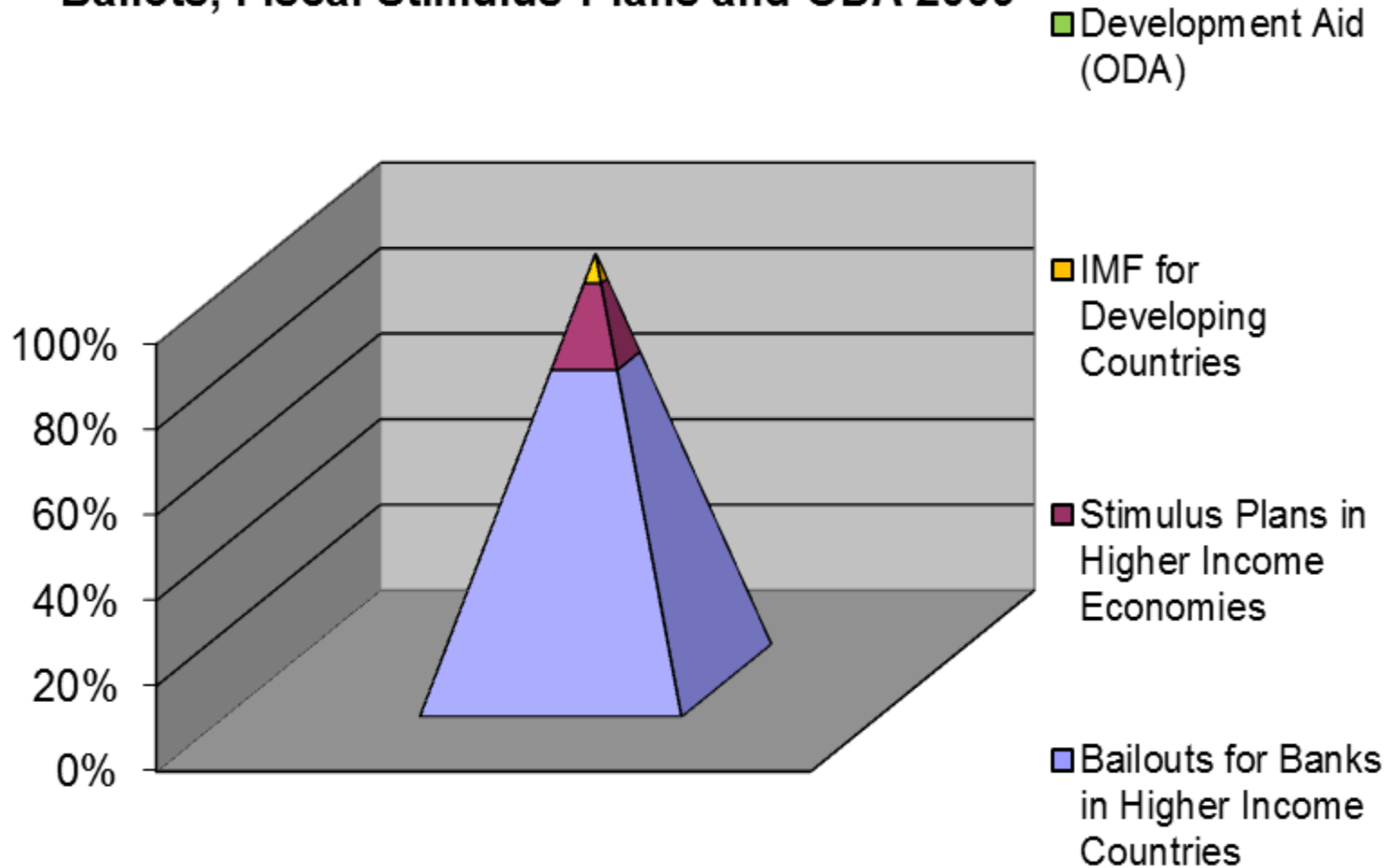
Global Working Poverty by Regions, 2011 (US\$2/day)



Source: Ortiz and Cummins, 2012: *A Recovery for All*

Bailing Out Banks, Not People

Bailouts, Fiscal Stimulus Plans and ODA 2009



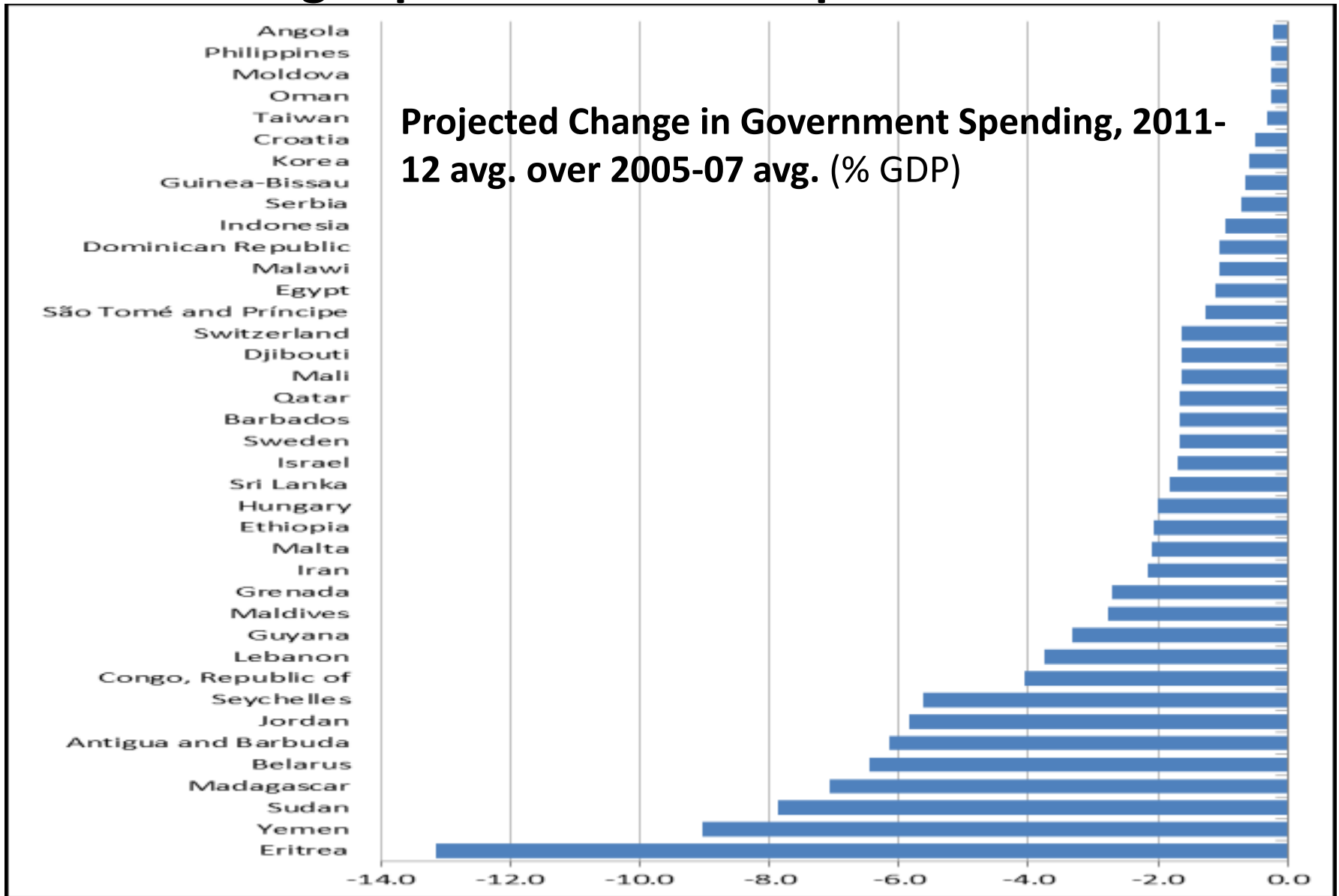
2010 onwards - Austerity not only in Europe

Governments worldwide contracting public expenditures

Income Group (n=)	Indicator	(A) Change in Spending (year on year, in % of GDP)				(B) Growth of Real Spending (year on year, as a %)			
		2010	2011	2012	2013	2010	2011	2012	2013
	Overall avg. change	-0.6	0.2	-1.0	-0.7	5.6	6.4	1.7	2.9
Developing Countries (130)	Avg. contraction	-2.7	-1.8	-1.8	-1.2	-6.7	-5.0	-6.2	-3.3
	# of countries contracting	68	62	94	92	32	36	40	26
	Overall avg. change	-0.7	-1.2	-0.6	-0.7	1.8	1.6	0.2	0.6
High Income Countries (49)	Avg. contraction	-1.6	-2.0	-1.0	-1.0	-4.4	-4.7	-2.5	-3.0
	# of countries contracting	38	37	39	39	18	18	20	14

Source: Ortiz and Cummins, 2012: *A Recovery for All*, UNICEF, based on IMF data

Countries with excessive contraction/ Cutting expenditures below pre-crisis levels



Source: Ortiz and Cummins, 2012: *A Recovery for All*, UNICEF, based on IMF data

A Crisis Of Social Support

- Contraction of public expenditures in 133 countries in 2012 (94 developing countries)
- Wage bill cuts or caps in 73 countries, reducing the salaries of public-sector workers who provide essential services to the population.
- Phasing-out subsidies (food, fuel, others) in 73 countries, despite record-high food prices in many regions.
- Cuts in social protection programs are under consideration in 55 countries, at a time when governments should be looking to scale up benefits
- VAT increases on basic goods and services that are consumed by the poor – that may further contract economic activity – in 71 countries

In crisis, women's pressure to support family care increases => gender inequality

Wage Bill Cuts or Caps		Reduce or Eliminate Subsidies		Further Target SafetyNets		Old-Age Pension Reform		Increase Consumption Taxes	
Algeria	Mexico	Algeria	Malaysia	Albania	Peru	Albania	Nicaragua	Albania	Mexico
Antigua Barbuda	Micronesia	Angola	Maldives	Algeria	Philippines	Antigua and Barbuda	Norway	Antigua	Micronesia
Bahamas	Moldova	Austria	Mali	Antigua Barbuda	Portugal	Barbuda	Portugal	Barbuda	Moldova
Belarus	Montenegro	Bangladesh	Mauritius	Belarus	Romania	Austria	Romania	Armenia	Montenegro
Belize	Morocco	Belarus	Mexico	Bolivia	Russia	Belarus	Russia	Belize	Netherland
Benin	Mozambiq	Bolivia	Morocco	Bosnia and Herzegovina	Slovak Rep	Belgium	Serbia	Bhutan	New Zealand
Bosnia and Herzegovina	Netherland	Burkina Faso	Mozambiq	Bulgaria	Slovenia Spain	Belize	Singapore	Botswana	Nicaragua
Botswana	Nigeria	Burundi	Nepal	Cambodia	St. Kitts and Nevis	Benin	Slovak Rep	Colombia	Pakistan
Bulgaria	Palau	Cameroon	Netherland	Cyprus	St Vincent & Grandns	Bosnia and Herzegovina	Slovenia Spain	Costa Rica	Panama
Burkina Faso	Poland Portugal	Cape Verde	Nicaragua	Czech Rep	St Vincent & Grandns	Bulgaria	St. Kitts and Nevis	Czech Rep	Poland
Burundi	Romania	Central African Republic	Niger	Denmark	Sudan	Canada	St. Lucia	Djibouti	Portugal
Cambodia	Samoa	Congo, Dem. Rep. of	Nigeria	Dominica	Timor-Leste	Cyprus	St Vincent & Grand’ns	Dominica	Qatar
Chad	Serbia	Dominican Republic	Norway	Egypt	Tunisia	Czech Rep	Tunisia	Republic	Romania
Chile	Slovak Rep	Egypt	Pakistan	El Salvador	UK	Egypt	Turkey	Egypt	Russia
Costa Rica	Slovenia	Dominican Republic	Palau	Fiji	USA	Estonia	Uganda	Ethiopia	Saudi Arabia
Côte d'Ivoire	Solomon Is	El Salvador	Philippines	Germany		Greece	Ukraine	Fiji	Seychelles
Cyprus	South Africa	Egypt	Portugal Qatar	Greece		Guyana	UK	Gambia	Slovak R
Djibouti	St. Kitts and Nevis	El Salvador	Romania	Grenada		Honduras	USA	Ghana	Spain
Estonia	Spain	Fiji	Saudi Arabia	Hungary		India		Germany	Sri Lanka
Fiji	Sierra Leone	Gabon	Serbia	India		Italy		Greece	St. Kitts and Nevis
Gabon	Singapore	Ghana	Sierra Leone	Indonesia		Jamaica		Guatemala	Nevis
Greece	Slovak Rep Spain	Greece	Singapore	Ireland		Japan		Guinea-Bissau	St. Lucia
Grenada	St Vincent & Granad’ns	Grenada	Slovak Rep Spain	Italy		Jordan		Guyana	Sudan
Guinea-Bis.	Swaziland	Guinea-Bissau	St. Kitts and Nevis	Japan		Lebanon		India	Suriname
Haiti	Tajikistan	Haiti	Nevis	Jordan		Lithuania		Iran	Swaziland
Honduras	Tanzania	Honduras	Sudan	Kazakhstan		Korea South		Ireland	Tanzania
Hungary	Timor-Leste	India	Suriname	Lebanon		Mali		Italy	Thailand
India	Tonga	Indonesia	Tanzania	Malaysia		Mexico		Jamaica	Togo
Ireland	Tunisia	Iran	Thailand	Mauritania		Micronesia		Japan	Tunisia
Italy	Turkey	Iraq	Timor-Leste	Mauritius		Montenegro		Jordan	Turkey
Jamaica	Tuvalu	Ireland	Togo	Moldova		Morocco		Kenya	Uganda
Jordan	UK	Italy	Tunisia	Mongolia		Netherlands		Kiribati	UK
Kazakhstan	Ukraine	Jordan	Turkey Tuvalu	Morocco		New Zealand		Korea South	Uruguay
Kiribati	Vanuatu	Kiribati	UK	Mozambiq				Kyrgyz Rep	Vanuatu
Lebanon	Yemen	Korea South	Ukraine	Nepal				Liberia	Vietnam
Lithuania		Kosovo	Yemen	Netherland				Lithuania	Yemen
Macedonia		Lesotho		Netherlands				Malaysia	
Maldives		Liberia		Nicaragua				Mali	
Marshall Is.		Macedonia		Norway					
				Paraguay					

People Suffering Unnecessarily

- Many people have been hurt three times by this sequence:
 - They were left behind in the run-up to the crisis
 - They were severely affected during the crisis
 - They are now suffering from the sharp reductions in government expenditure and increases in public debt (which were to a large extent created by bailing out the banks) and from reduced economic growth.
- Return to “normal” (pre-crisis) is not a the solution, many were denied a decent living
- Governments acted as a banker of last resort – but not as an employer of last resort, protecting people and stimulating growth.
- The crisis is used as an opportunity to cut back the state, even though the lesson of other crises is that the state needs to be stronger not weaker
- The crisis used as an opportunity to impose unpopular reforms (eg labor flexibilization, social welfare cuts) instead of regulating the financial sector and ending corporate welfare



Fiscal Space For Human Rights Exists Even in the Poorest Countries

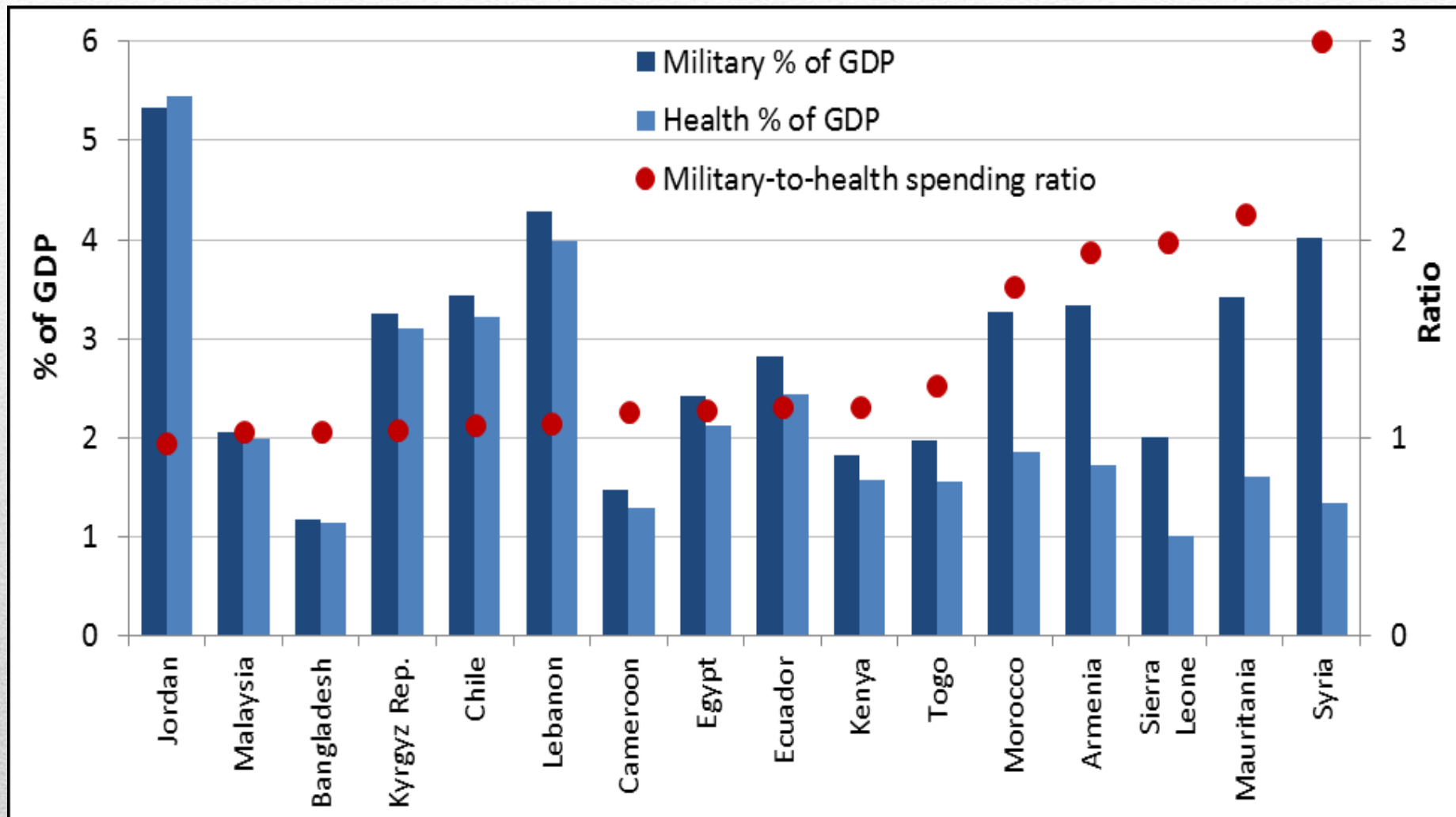
There is national capacity to fund social and economic development even in the poorer countries. There are many options, supported by UN policy statements:

- 1. Reprioritization of expenditures**
 - 2. Improved tax revenues**
 - 3. More accommodating macroeconomic framework (eg tolerance to some inflation, fiscal deficit)**
 - 4. External and domestic financing, restructuring debt**
 - 5. Fighting illicit financial flows**
 - 6. Use of reserves for national development**
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Fiscal Space For Human Rights:

Re-allocating Public Expenditures

Military and Health Spending in Selected Developing Countries, 2006-09



Source: Ortiz and Cummins, 2012: *A Recovery for All*, UNICEF

Fiscal Space for Human Rights:

Increasing Tax Revenues

- Income taxes
- Property and inheritance taxes
- Corporate taxes, including the financial sector
- Tariffs (imports/exports)
- Consumption/sales taxes, tolls

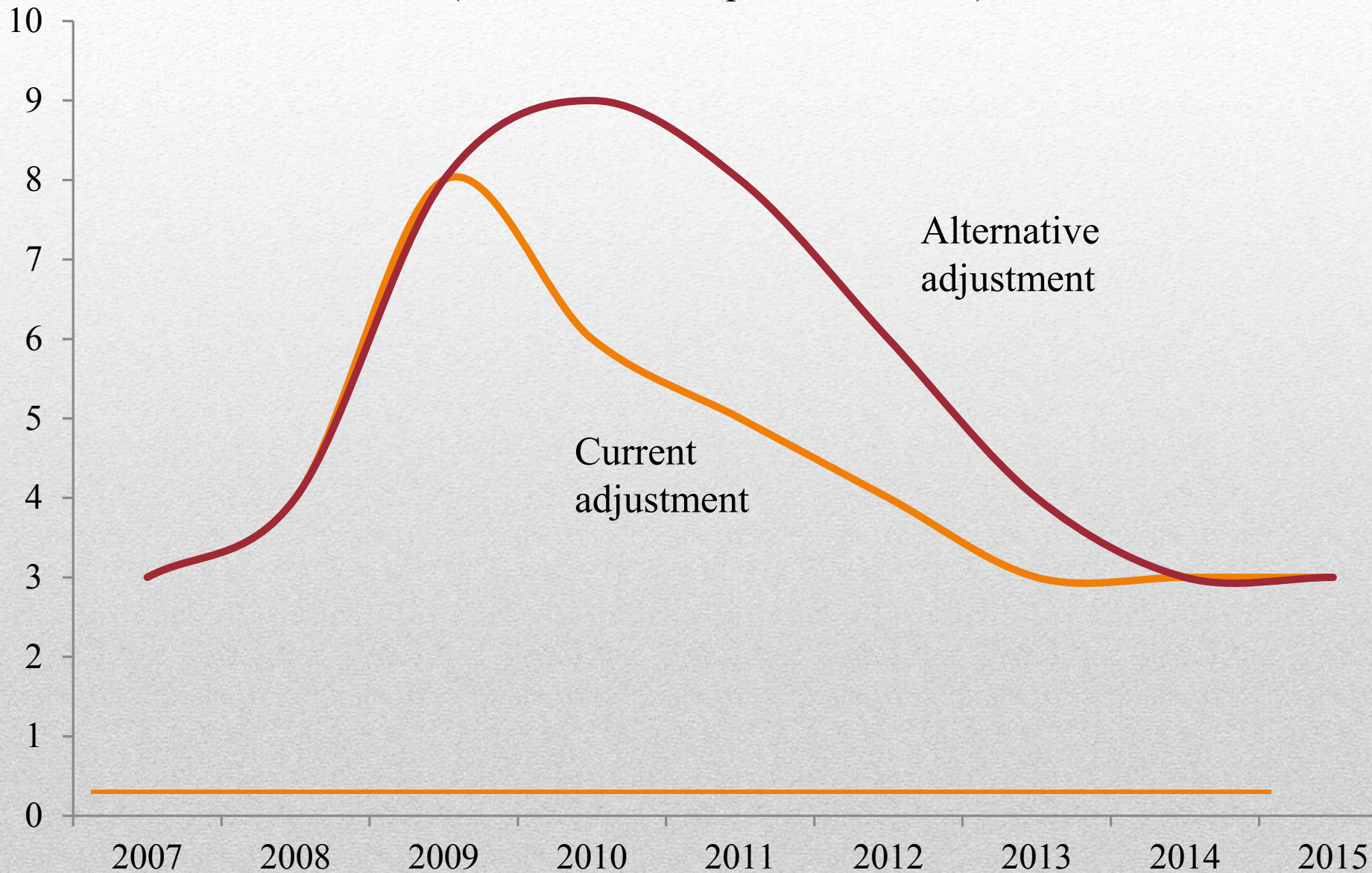
High income inequality should make governments move away from indirect taxation (eg. consumption/sales taxes/VAT)

*But many developing countries continue lowering individual and corporate income tax rates for the top income brackets, 2009**

Individual Income Tax	Corporate Income Tax		
Bulgaria	Albania	Ghana	Romania
Colombia	Bangladesh	India	Russian Federation
Egypt	Bosnia & Herzegovina	Indonesia	Serbia
Indonesia	Bulgaria	Kazakhstan	South Africa
Kazakhstan	China	Kenya	Swaziland
Lithuania	Colombia	Macedonia	Thailand
Malaysia	Costa Rica	Malaysia	Tunisia
Mauritius	Côte D'Ivoire	Mauritius	Uganda
Mexico	Dem. Rep. of Congo	Mexico	Venezuela
Pakistan	Dominican Republic	Papua New Guinea	
Papua New Guinea	Ethiopia	Peru	
Viet Nam	Fiji	Philippines	

Example Accommodating Macroeconomic Framework – Fiscal Policy

(Fiscal deficit in percent of GDP)

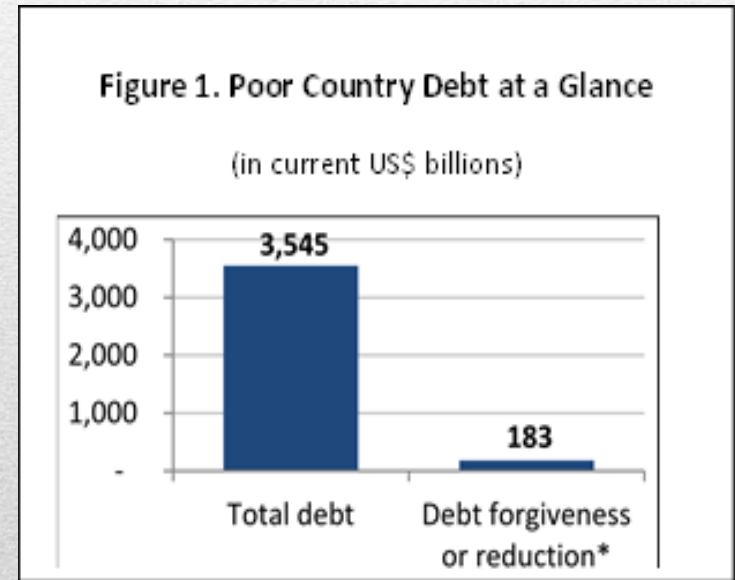


Fiscal Space For Human Rights:

Debt Restructuring

Five main options available to governments to restructure sovereign debt:

- *Re-negotiating debt* – More than 60 countries since 1990s
- *Achieving debt relief/forgiveness* - HIPC
- *Debt swaps/conversions* – More than 50 countries since 1980s
- *Repudiating debt* – Iraq, Iceland
- *Defaulting* – more than 20 countries since 1999, including Argentina and Russia



Important – concept of illegitimate debt: responsibility not only debtors, but also creditors

Need for an international debt work-out mechanism

Fiscal Space for Human Rights: Avoiding South-North Transfers including Illicit Financial Flows

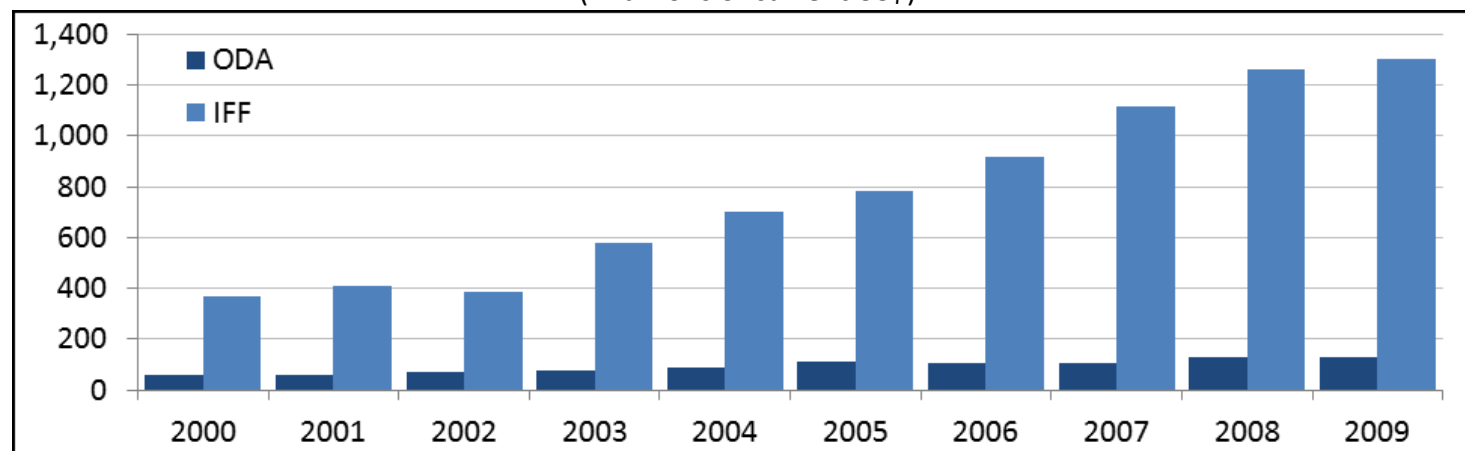
Net Transfer of Financial Resources to Developing Economies, 1998-2010

(in billions of US dollars)

Developing Region	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Africa	2.9	1.6	-13.7	-16.4	-4.2	-16.1	-34.5	-76.4	-108.3	-100.9	-99.1	2.9	-35.3
Sub-Saharan Africa*	11.5	7.9	2.3	6.4	4.4	5.3	3.5	-0.6	-10.5	-9.1	-4.8	27.3	14.6
East and South Asia	-129.8	-139.8	-122.8	-120.8	-149.2	-175.6	-183.4	-265.7	-385.7	-529.8	-481.3	-427.5	-352.9
Western Asia	34.5	2.7	-35.3	-29.7	-23.2	-46.7	-76.3	-143.7	-175.6	-144.0	-222.5	-48.4	-112.7
Latin America	41.5	7.4	-4.2	2.5	-33.6	-64.3	-85.4	-111.4	-138.0	-106.4	-73.5	-72.1	-56.1
All Developing Economies	-41.0	-128.0	-194.0	-164.4	-210.2	-302.7	-379.5	-597.2	-807.8	-881.1	-876.4	-545.1	-557.0

Illicit Financial Flows (IFF) versus Official Development Assistance (ODA), 2000-09*

(in billions of current US\$)



Fiscal Space for Human Rights: Use of Reserves

Sovereign Wealth Funds (SWFs) based on Fiscal Reserves in Selected Developing Countries, June 2011 *Example - Timor Leste – Dismal human development indicators but billions invested overseas in SWF*

Country	Fund Name	Assets US\$billion	Inception	Origin
Russia	National Welfare Fund	142.5	2008	Oil
Libya	Libyan Investment Authority	70.0	2006	Oil
Algeria	Revenue Regulation Fund	56.7	2000	Oil
Kazakhstan	Kazakhstan National Fund	38.6	2000	Oil
Malaysia	Khazanah Nasional	36.8	1993	Non-Commodity
Azerbaijan	State Oil Fund	30.2	1999	Oil
Iran	Oil Stabilisation Fund	23.0	1999	Oil
Chile	Social and Economic Stabilization Fund	21.8	1985	Copper
Brazil	Sovereign Fund of Brazil	11.3	2008	Non-Commodity
Botswana	Pula Fund	6.9	1994	Diamonds and Minerals
Timor-Leste	Timor-Leste Petroleum Fund	6.3	2005	Oil and Gas
Mexico	Oil Revenues Stabilization Fund of Mexico	6.0	2000	Oil
Venezuela	FEM	0.8	1998	Oil
Vietnam	State Capital Investment Corporation	0.5	2006	Non-Commodity
Kiribati	Revenue Equalization Reserve Fund	0.4	1956	Phosphates
Indonesia	Government Investment Unit	0.3	2006	Non-Commodity
Mauritania	National Fund for Hydrocarbon Reserves	0.3	2006	Oil and Gas

Alternatives Exist

1929 Crisis/1930s Depression

- New Deal - controls on banks, action to stimulate the economy and employment, expansion social security and welfare
- Post war policy-makers were determined to fight unemployment, inequality, economic and political instability - High income countries experienced a prosperity unseen in history
- The United Nations (and the International Financial Institutions) were set up in 1945 to support policies that led to full employment, human rights and rising living standards on a world scale.

1997-98 Asian Crisis

- After IMF-IFIs advise, Asian countries strengthened capital controls, built up foreign reserves, fostered regional integration processes (however social development lagging behind)

1990s-2000s Latin American Crisis

- After repeated crisis, strong push for heterodox economic policies and regional integration (UNASUR, ALBA, MERCOSUR), to expand internal markets and raise living standards – addressing the “social debt” of Latin America.



Transforming The Financial Sector From Bad Master To Good Servant

- **The financial sector has two main functions:**
 - **It should serve the needs of the real economy**
 - **It should help manage and mitigate risk**
 - **In the last two decades it has done neither**
 - **It has not provided adequate sustainable finance for key sectors like SMEs, green investments, infrastructure, housing**
 - **It has created risk, led to numerous and costly crises, Latin America, East Asia 1997/8, current crisis**
 - **It is under-taxed**
 - **It has absorbed public funds**
 - **Countries need a smaller, simpler, more transparent and accountable financial sector, focused on lending to the real economy, not on making exorbitant profits and salaries for the financial sector and its outrageously over-paid employees**
-

Putting It Right: Financial Sector

- Should be taxed, eg. Tobin Tax - the European Commission and Parliament proposal is for a 0.01% tax on all securities and a smaller tax on derivatives.
- Adequate and effective regulation
- Speculative activity should be discouraged, as was done in the US in the 1930s with the Glass-Steagall Act.
- Reform of bankers' remuneration systems, to link them to long term performance rather than short-term results.
- The unhealthy power and influence that the financial sector has over regulators and politicians
- Expansion of efficient public banks to finance the real economy. Banks nationalized due to the crisis could be turned into public banks; where public banks do not exist, they need to be created.
- If the private financial sector continues to resist regulation, parts of the financial sector should become publicly owned: the financial sector is really a means to the end of fair and sustainable growth, and not an end for its own exclusive benefit and that of a small elite.

Putting It Right: Reducing Inequalities

- **Diminishing extremes of inequality needs to be made a focus of policy, in both governments and in international institutions**
- **Macroeconomic policies centered on employment-generating and pro-poor growth - a target for employment creation should be set**
- **Tax systems should be made progressive and sufficient revenue generated for social support, including social protection systems and high-quality publicly provided care services for the achievement of gender equality and human well-being**
- **Public expenditure should be reviewed to reduce expenditures such as perverse subsidies for large-scale agriculture, fossil fuel development and military spending**
- **Enforcing human rights and eradicating discrimination whether this involves addressing gender gaps; the neglect of people with disabilities; or the exclusion of minority groups and indigenous peoples**
- **Job creation needs to be a priority but it must involve the creation of decent jobs that allow people to earn a living with dignity and fulfilment of their rights at work**



Supportive Action By International Institutions

- **“A global crisis demands a global response” - Report of the Stiglitz Commission, set up by the UN General Assembly**
 - **So far, global action has been limited and weak - lack of global leadership.**
 - **Countries taking uncoordinated responses, the simultaneous adoption of fiscal austerity in countries worldwide is driving the global economy toward recession, and imposing huge human costs**
 - **The colossal economic and human losses – public demand for global action**
 - **But our world suffers from inadequate global governance. IFIs non-representative**
-

International Priority Actions For Recovery

- **Global coordination of actions to accelerate recovery to address the three scourges – unemployment, extremes of inequality and environmental sustainability**
 - **To restore the position of the United Nations in global economic and social management. Stiglitz Report - a new Economic and Social Council**
 - **Reform the IMF and the Banks**
 - **To explore changes required for the international system to work, such as a Global Reserve System, based on the SDR, or establishing an International Court for Debt Restructuring**
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People are suffering unnecessarily

We can make a difference

It is not too late

There are alternatives
