A RECOVERY WITH A HUMAN FACE?
Summary of a UN e-discussion

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In 2010, UNICEF initiated an e-discussion entitled 'A Recovery with a Human Face.'[1] It soon became the largest UNICEF network and one of the most successful e-discussions ever hosted by the UN. Contributors have included Nobel Laureate Paul Krugman, former UN Under-Secretary-General José Antonio Ocampo and many other prominent global thinkers from academia and civil society, including Sir Richard Jolly, Dani Rodrik, Nora Lustig, Martin Khor, Duncan Green, Ha-Joon Chang and Nouriel Roubini, among many others.[2] Above all, this e-discussion reflects an independent debate that goes beyond orthodox approaches that guide decision making. It further served as an alternative forum for dialogue, offering an important contribution to our understanding of the complex facets of the global economic crisis. This paper presents a summary of the 'A Recovery with a Human Face' e-discussion that took place between February 2010 and February 2012.

Contents: A Chronology of the global economic crisis: (i) Introduction - the worst world crisis since 1929, (ii) The first phase of the crisis (2008-10), (iii) The second phase of the crisis (2010-). Key Topics: (i) Distributional impacts: winners and losers of the global economic crisis, (ii) Employment and wages, (iii) Food prices, (iv) Debt and fiscal space for socio-economic recovery, (v) A Green New Deal?, (vi) Retrogression in human rights, (vii) Ideology and the crisis and (viii) The need for equitable policies.

1. A Chronology of the Global Economic Crisis

1.1. Introduction: The worst crisis since 1929

Largely stemming from reckless lending practices of financial institutions in the United States, the so called 'subprime mortgage crisis,' a financial crisis erupted in 2008. It quickly spread to Europe and then across the rest of the world. This global downturn resulted in a sharp drop in international trade and a steep rise in unemployment and underemployment. As an initial response, most governments in the developed world moved to bail out banks and other financial institutions on the premise of 'too big to fail.' Regular citizens—and in particular the poor, both in high- and low-income countries—became the

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1 The e-discussion was moderated by Isabel Ortiz, Associate Director, Policy and Practice, UNICEF and Louise Moreira Daniels, Policy Analyst, UNICEF. The findings, interpretations and conclusions expressed in this summary are those of the contributors to the e-discussion and do not reflect the policies or views of UNICEF or of the United Nations. The selection of text in this summary was a choice of the moderators and does not necessarily represent core work of the contributors.

2 The complete list of contributors is provided at the end of this summary.

victims of a crisis that they did not create and bore the costs of a 'recovery' that has largely excluded them.

In April 2009, leaders of high-income economies called for a meeting of the Group of 20 (G20), a relatively unknown group at the time that consisted of the Group of 8 (G8) plus a dozen emerging developing countries. This empowered group took major (and unexpected) decisions on crisis management at the London Summit.[3] There it was decided that US$1 trillion should be allocated to solve the crisis. These funds were primarily given to the International Monetary Fund (IMF) (US$750 billion), with a smaller tranche for the development banks (US$100 billion) and the rest to support trade. Although the UN did not receive any financial support, the G20 tasked it with developing a real-time monitoring system to alert on the possible deterioration of living conditions of the poor (the Global Impact and Vulnerability Alert System [GIVAS], later known as Global Pulse).[4]

These G20 decisions were highly contested. On June 26, 2009, the 192 Member States of the UN ('the G192') met and adopted by consensus a statement on the World Financial and Economic Crisis and its Impact on Development.[5] The analysis and recommendations covered the gamut from short-term mitigation to deep structural change, from crisis response to reform of the global economic and financial architecture. The statement was based on the work of a high-level Panel of Experts led by Nobel Laureate Joseph Stiglitz.[6] Although the outcome document was a minimal consensual synthesis, it remains to date the only legitimate and democratically-supported global agreement on the crisis. Regrettably, corporate global media obscured the compact reached at the UN,[7] and attention turned to the G20 and to the newly-empowered IMF to solve crisis, leaving most countries with no voice.

The opening message in UNICEF's e-discussion 'Recovery with a Human Face' by Sir Richard Jolly, Frances Stewart and Andrea Cornia was heartfelt:

> "The debt crisis of the 1980s led to a severe recession in almost all African and Latin American countries. IMF and World Bank adjustment programs required countries to cut back on their expenditures, introduce charges for health and education, and reduce or abolish the minimum wage. Reductions in protection led to the collapse of industrial sectors in many countries and to high unemployment. Poverty rose and income distribution worsened. Most countries had no or very limited programs of social protection. This was what came to be known as the 'lost decade.'
>
> UNICEF responded with *Adjustment with a Human Face,* which argued that children must and could be protected during economic crises and explained how this could be done—through more expansionary macro-programs, redirection of meso-policies to protect crucial social and economic sectors serving the poor, and the introduction of social protection programs.

3 G20. 2009. "London Summit – Leaders' Statement," April 02.

4 United Nations. 2010. *Voices of the Vulnerable: Recovery from the Ground Up.* New York: United Nations Global Pulse.

5 United Nations. 2009. "Outcome of the Conference of the World Financial and Economic Crisis and Its Impact on Development," June 24-26. New York: United Nations.

6 United Nations. 2009. Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System. New York: United Nations.

7 As an anecdote, on June 27, 2009 and the following days, the international press focused attention on the death of pop star Michael Jackson rather than the agreement of all world governments to address the global crisis, despite press releases and a press conference by the UN.

Since then the world has generally acknowledged the critical importance of reducing poverty and of protecting children in difficult circumstances. Worldwide agreement on the MDGs is the outcome of this consensus.

Yet in 2008 a new global recession suddenly developed, the consequence of irresponsible lending by Western banks. The poor in developing countries are again suffering—this time from a crisis that is entirely due to actions taken in the developed world. It is critically important that this does not lead to a new lost decade, and that the poor, and especially children, do not suffer as they did in the 1980s.

Fortunately, the world has moved on since the 1980s and developing countries are more in control of their own destiny. Being less indebted, they do not need to turn to the IMF in large numbers; many have initiated their own macroeconomic stimulus instead of the cuts of the 1980s. More social protection programs are in place, like employment guarantee schemes, cash transfers and micro-finance. Nonetheless, many millions are likely to suffer from the depressed world markets, reduced employment and falling remittances.

It is of crucial importance for the poor of the world that as the global recession recedes there is 'Recovery with a Human Face,' that is, a recovery that is inclusive, expands employment opportunities, sustains health and education services, and provides support for those below the poverty line."

1.2. The first phase of the crisis (2008-10)

Policy responses to the global economic crisis have varied around the world and over time. In hindsight, however, two distinct phases of the crisis clearly emerge. In a first phase, most governments launched fiscal stimulus plans in order to buffer their populations from the initial shocks. This new type of crisis response was characterized by expansionary policies, which differed significantly from the orthodox reactions of the past. Moreover, the expansionary approach created a general feeling of optimism, especially among those who had been emphasizing the importance of counter-cyclical macroeconomic policies even when the concept had been marginalized from the lexicon of mainstream economics (Ocampo).[8]

In theoretical terms, sound counter-cyclical macroeconomic policy should begin during boom periods to avoid accumulating unsustainable debts—both internal and external. Yet in the years preceding the crisis, support for such instruments was weak: the IMF had a pro-cyclical bias in its monetary policies, emerging and developing countries tended to have pro-cyclical macroeconomic policies, which magnified rather than smoothed the effects of strong positive and negative external shocks (Chowdhury). Furthermore, it is now clear that the United States ran massive pro-cyclical policies during the 2003-07 boom, a factor that was a basic major force behind the financial crisis (Ocampo).

It was thus surprising to see the emergence of stimulus plans in the early stages of the crisis. In fact, the term 'counter-cyclical' came back with force during 2008-09: it was strongly endorsed by the G20, frequently heard from the IMF and even supported by some orthodox economists. While the size of fiscal stimuli varied from country to country, in general, the most massive Keynesian macroeconomic

[8] Ocampo, J.A. 2010. "The Return of Counter-cyclical Policies." *Journal of Globalization and Development* 1(1):10.

packages in history were put in place, including in some emerging markets. According to estimations for 48 countries, the total fiscal stimulus size amounted to US$2.4 trillion, which equaled nearly 4 percent of global GDP in 2008.[9] The data also confirm that some developing countries announced much bigger fiscal stimulus packages than many wealthier economies in terms of national GDP (Zhang, Thelen and Rao).

The size of these stimuli was indeed relevant, but perhaps even more so was their composition. In particular, most countries included significant measures to protect the most vulnerable members of society. On average, about 25 percent of fiscal stimulus funds were spent on social protection. Cases were presented on Africa,[10] Asia and Latin America[11] (Jolly, Laryea-Adjei, Mesa-Lago). Such investments were critically important because they could directly help prevent vulnerable populations from losing their income, shedding their assets, or reverting to coping strategies that may be harmful to their current and future well-being (e.g., cutting household spending on health or child education). There are also long-term benefits to strengthening social protection systems. One of the outstanding features of developed welfare states is the existence of a well-functioning social protection system. Such systems are a key ingredient of sustainable economic growth and can provide pivotal help during recessionary periods. Looking at the labour market segment, for example, unemployment benefits coupled with active labour market policies, such as short-term public works programs, are counter-cyclical and act as automatic stabilizers if 'smartly' taking account of the diverse character of the sectors which are most vulnerable to economic contraction (Auer, Molyneux).

The renewed attention to social protection systems became apparent both at global and national levels. One major development at the global level was the agreement of the UN Chief Executive Board in early 2009 to the idea of the Global Social Protection Floor below which no person should fall. This initiative aims to support countries to establish a minimum level of access to essential services and income security for all (Cichon).[12] Generally, the pre-existence of strong social protection policies and institutions prior to the crisis facilitated quick responses, which highlights the need to build social protection systems in all countries. Additionally, at the International Labour Organization's (ILO) Conference in June 2009, governments, delegates of employers and workers from the ILO's Member States, unanimously adopted a 'Global Jobs Pact,' which was a set of job-centered policy measures that countries could adopt to ease the impact of the crisis.

Nevertheless, many argued that some counter-cyclical policies were weak during the global economic crisis, just as in previous crises. In Africa, for example, the experience was diverse, with some countries adopting counter-cyclical policies and others unable to do so (Ocampo). Furthermore, the growing evidence that the employment, human and social effects of the financial crisis would be felt well after an economic recovery had taken place called for (immaterialized) corrective actions in fiscal stimuli, with special attention to employment-generating activities and reducing income inequality at both national and international levels (van der Hoeven).

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9 Zhang, Y., N. Thelen and A. Rao. 2010. "Social Protection in Fiscal Stimulus Packages: Some Evidence." UNDP/Office of Development Studies Working Paper, UNDP.

10 Laryea-Adjei, G. 2010. *The Impact of the International Financial Crisis on Child Poverty in South Africa*. Johannesburg: UNICEF and Financial and Fiscal Commission, South Africa.

11 Mesa-Lago, C. 2010. *World Crisis Effects on Social Security in Latin America and the Caribbean: Lessons and Policies*. London: University of London Institute for the Study of the Americas.

12 ILO and WHO. 2009. *The Social Protection Floor Initiative*. Geneva: ILO and WHO.

In reality, fiscal stimuli amounts paled in comparison to the elephantine size of funds that were devoted to bailing out the financial sector. While estimates vary widely, the IMF suggests that bank bailouts amounted to over US$9 trillion in the G20 alone, and this does not include the large bailouts in Spain, Ireland, Greece and other non-G20 countries. This should be contrasted to the approximately US$2.4 trillion of announced fiscal stimuli by governments, to the US$1 trillion called by the G20 to solve the global economic crisis or to the total global overseas development assistance (ODA) distributed to developing countries in 2008, which amounted to a meager US$0.1 trillion.

During 2009, the effects of the food, fuel and financial crises were increasingly felt by the poor in developing countries. In terms of declining household income, the number of unemployed persons jumped by 30 million to 210 million worldwide in less than two years (Torres,[13] Espey and Garde[14]). In terms of increasing hunger and malnutrition, UNICEF and FAO raised the alarm that persistently high food prices were likely causing irreversible damage to poor children and their families. And in terms of overall poverty rates, the World Bank estimated that on top of the millions already pushed into poverty in 2008-09, an additional 64 million people were likely to fall into extreme poverty during 2010.[15] The Asian Development Bank (ADB) showed the first impacts of this "triple F" crisis on poverty and sustainable development in Asia (Bauer),[16] also identified by Mehrotra.[17] Unfortunately, the adverse human impacts of the global economic crisis were only just beginning to gain momentum.

1.3. The second phase of the crisis (2010-)

It was widely acknowledged that the implementation of counter-cyclical policies during the early stage of the crisis averted an immediate worldwide recession. This policy stance, however, was short-lived. Whereas most governments launched fiscal stimulus plans and policies that resulted in increased public spending during 2008-09, the expansionary trend came to an abrupt end in 2010, when, on top of the 'triple F' food, fuel and financial crises, a fourth 'F' shock began to sweep across developing countries: fiscal austerity. In February 2010, two IMF Board papers called for large-scale fiscal adjustment (e.g., reduction in government deficits) when "the recovery is securely underway" as well as for structural reforms in public finance to be initiated now "even in countries where the recovery is not yet securely underway."[18] While these papers were supposed to be focused on higher-income economies, they were the first signs of a worldwide policy reversal, which had the support of the G20.

The second phase of the crisis saw a sharp shift from fiscal stimulus to fiscal austerity, despite the weakness, unevenness and uncertainty of the economic upturn and the continued impacts on vulnerable populations in many countries (Jomo). Developed countries started to announce and implement severe cuts in government spending along with new taxes, which raised concerns of a double-dip recession. Governments started to argue that austerity was necessary in order to maintain the confidence of financial markets so that they could continue to sell bonds (Herman). The sudden turn

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13 ILO. 2011. *World of Work Report 2011.* Geneva: ILO.

14 Espey, J. and M. Garde. 2010. "The Global Economic Crisis. Balancing the Books on the Backs of the World's Most Vulnerable Children?" G20 Brief, Save the Children UK.

15 World Bank. 2010. Global Monitoring Report 2010: The MDGs after the Crisis. Washington, D.C.: World Bank.

16 Bauer, A. and M. Thant (eds.). 2010. *Poverty and Sustainable Development in Asia: Impacts and Responses to the Global Economic Crisis.* Manila: ADB.

17 Mehrotra, S. 2009. "The Impacts of the Economic Crisis on the Informal Sector and Poverty in East Asia." *Global Social Policy* XX(X): 1-19.

18 IMF. 2010. Exiting from Crisis Intervention Policies. Washington, D.C.: IMF. And IMF. 2010. Strategies for Fiscal Consolidation in the Post-Crisis World. Washington, D.C.: IMF.

to austerity was also driven by fear that if their budget deficits were too large, they may not be able to borrow enough at a reasonable rate of interest, and may be forced to default (Khor).

The rush toward austerity started in Europe, when the near debt default in Greece quickly instigated worries of contagion of sovereign debt crises to Portugal, Ireland and Spain, which were grouped under the derogatory acronym the 'PIGS.' In the periphery of Europe, many countries had been struggling to cope with the inadequate arrangements of the Euro. Moreover, other countries that were thought to be safe from the sovereign debt crisis soon came under question, including France and the United Kingdom. Overall, it comes as little surprise that European countries became the breeding ground for such fears since, unlike most governments, countries in the Eurozone do not have the option to print money or devalue their currency due to the loss of monetary policies from having joined a monetary union without other necessary measures such as an adequate fiscal union. As a result, Eurozone countries were forced to rely on private capital markets to meet their borrowing needs (Khor).

In Greece, financial markets began demanding higher returns in order to continue lending to the government. And by mid-2010, bond yields reached double-digits, making a bail out with loans from Europe and the IMF inevitable. With respect to Ireland, Paul Krugman noted that only a satirist could do justice to what was happening there. Once seen as a genuine economic miracle, Ireland's future was hastily transformed into a speculative frenzy driven by runaway banks and real estate developers, and financed with huge borrowing on the part of Irish banks, largely from other European banks. When the bubble burst and those banks faced huge losses, the Irish government stepped in to guarantee the banks' debt, turning private losses into public obligations. Ireland then tried to reassure the markets with a harsh program of spending cuts. The newly-incurred public debts were not used to pay for public programs, but rather to guarantee the profits of private wheeler-dealers who sought nothing but their own profit. Yet ordinary Irish citizens are now bearing the burden of those debts (Krugman).

Other contributors noted that European authorities—especially the European Central Bank (ECB)—seemed to be committed to punishing the weaker economies. In essence, governments were forced to cut spending even if it caused or deepened recession and mass unemployment (over 20 percent in Spain) as a requirement for the so-called 'trillion dollar bailout.' But where is the inflation that the ECB was so worried about? The Eurozone had 1 percent inflation in 2010. These pro-cyclical policies made things worse in the countries that adopted them, and reduced growth in the whole Eurozone (Weisbrot).

Even in the United Kingdom, where the government had the option to continue with fiscal stimulus, policymakers cut spending by £83 billion and raised taxes by £29 billion in 2010. Public outrage erupted when *The Guardian* obtained leaked documents from the Treasury and reported that austerity measures would likely cause 1.3 million job losses by 2015, of which 600,000 would be from the public sector and 700,000 from firms losing government contracts. The government responded by announcing that two million new private sector jobs would be created, which would more than offset the 600,000 lost in the public sector. This prediction, however, was met with skepticism (Khor).[19]

The shift to austerity reached the United States at a later time, but once it did, it arrived in full force. Earlier, the United States had criticized Germany for its focus on reducing the deficit and insisting that Greece and other countries implement austerity measures to qualify for bailout loans. In the second half

[19] Elliot, L. 2010. "Budget will Cost 1.3m Jobs – Treasury." *The Guardian*, June 29; Elliot, L. 2010. "Where will the Private Sector Jobs Come from?" *The Guardian*, June 30.

of 2010, however, the United States began to change its position. The opposition to fiscal stimulus and further deficit growth by the Republicans and some Democrats in Congress ushered in an austerity consensus in policy circles. Since most of the states were already facing deep deficits, which made it increasingly difficult to get new loans, state governments began to scale back their spending. This, in turn, had an immediate effect on employment, aggregate demand, and social and human capital formation. The most adversely impacted, expectedly, were the poorest and most vulnerable in society (Khor, Wolf).

The resurgence of fiscal tightening also took hold in many developing countries, with policy pressure from the financial media and international financial institutions (Jomo; Ortiz, Chai and Cummins). During the first stage of the crisis, the IMF raised expectations about reforms in its fundamental policy approach to crisis response, seemingly abandoning neoliberal prescriptions. As the crisis evolved, however, it became clear that, in practice, there were few changes to its standard recommendations to developing countries on monetary and fiscal policies (McKinley).[20] According to critical voices, the IMF has failed to revise its rigid and traditional approach to macroeconomic policy guidelines, still basing its policy design on low fiscal deficits, low inflation rates, flexible exchange rates, and trade and financial liberalization (Molina).[21] As described later, a significant number of developing countries have been contracting aggregate government spending since 2010, with the scope of austerity intensifying and widening quickly (e.g., 94 developing countries are expected to reduce annual expenditures during 2012); perhaps more alarming, nearly one-quarter of developing countries appear to be undergoing excessive contraction, defined as cutting expenditures below pre-crisis levels in terms of GDP (Ortiz, Chai and Cummins). In other words, austerity is driving the global economy toward recession (Flassbeck).[22]

The disruption of recovery efforts through such premature calls for austerity have exacerbated unemployment and reduced social spending, further impeding progress toward the MDGs and other internationally-agreed development goals (Jomo).[23] Economists such as Robert Pollin, Gerald Epstein[24] and James Heintz[25] showed that alternative approaches to fiscal and monetary policies in low-income countries (LICs) are certainly possible (Hailu, Weeks),[26] but, first, the dominant neoliberal macroeconomic policy framework needs to be replaced with one that better emphasizes the long-neglected demand side (Rowden).

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20 McKinley, T. 2010. "Has the IMF Abandoned Neoliberalism?" Development Viewpoint No. 51, Centre for Development Policy and Research (CDPR); Van Waeyenberge, E., H. Bargawi and T. McKinley. 2010. *Standing in the Way of Development? A Critical Survey of the IMF's Crisis Response in Low-income Countries*. Brussels: Eurodad and Third World Network.

21 Molina, N. 2010. *Bail-out or Blow-out? IMF Policy Advice and Conditions for Low-income Countries at a Time of Crisis.* Brussels: Eurodad.

22 Flassbeck, H. 2011. "On the Brink: Fiscal Austerity Threatens a Global Recession." UNCTAD Policy Brief 24, UNCTAD.

23 United Nations. 2011. *World Economic Situation and Prospects 2011*. New York: UN-DESA.

24 Epstein, G. 2009. "Rethinking Monetary and Financial Policy: Practical Suggestions for Monitoring Financial Stability while Generating Employment and Poverty Reduction." Employment Sector Working Paper 37, ILO.

25 Pollin, R., G. Epstein and J. Heintz. 2008. "Pro-Growth Alternatives for Monetary and Financial Policies in Sub-Saharan Africa." IPC Policy Brief 6, UNDP International Policy Center for Inclusive Growth.

26 Hailu, D. and J. Weeks. 2009. "Can Low-Income Countries Adopt Counter-Cyclical Policies?" One Pager No. 92, UNDP International Policy Centre for Inclusive Growth.

With the G8 struggling, the emerging economies, including China, Brazil, India and South Africa, were expected to lead global recovery in 2011. Yet these emerging market 'darlings' cannot save the world from economic stagnation. Even with three decades of growth and 1.3 billion people, China's economy still only contributes 13 percent of global output (as of 2010), which pales in significance when compared to the combined output of the developed world (55 percent). Brazil, India and South Africa are also relatively small players despite recent growth, contributing 2.9, 5.5 and 0.7 percent, respectively, of world output (Chang).[27] Furthermore, emerging economies started to lose steam as global demand—led by high-income countries—stagnated, questioning their export-oriented development approach and underscoring the need to develop their internal markets by raising domestic living standards. Moreover, while such belated recognition of a changed world economy was welcomed by many, it should be noted that this transformation is still not reflected in the governance structures of major international financial institutions. In sum, the BRICS are unlikely to be able to ensure a strong, protracted global economic '*Recovery for All*' on their own (Jomo, Nayyar, Chang).

In this context, the G20 meetings attracted widespread public attention as the hope for decisive and coordinated action on global recovery, to manage global aggregate demand and exchange rates, to regulate the financial sector and to support populations. However, the shift from recovery efforts to fiscal consolidation and to hasty current account rebalancing has undermined the initial G20-led coordination of recovery efforts. Instead, finger-pointing grew in 2010, impeding policy coordination and cooperation—the very bases of the G20's earlier success (Jomo).

Furthermore, the G20 is being selective in the issues that it works on and looks to the private sector to come to the rescue where official cooperation lags (Herman).[28] This is most clearly evidenced in the activities and conclusions of the G20 Development Working Group, which was set up at the Seoul Summit in November 2010 as part of its Multi-Year Action Plan. One year later in Cannes, leaders introduced some discussion of ODA (albeit without meaningful commitments while referring to innovative sources of financing for development); made reference to environmental sustainability and the fight against climate change (alas, no progress here); and implicitly opened up an increasing role for the public sector in infrastructure investment (while mainly seeking ways to attract private investors). Moreover, the international social agenda seems to have been stripped down to nationally defined social protection floors (plural) for the poor (why not some international guideline?) and worrying about the creation of decent jobs (without indicating how to do so in the current context of fiscal consolidation). While this may help, much more is needed from the G20 at this critical stage (Herman).

And a critical stage it is. In 2011, the world witnessed a global wave of social and political turmoil and instability: the Arab Spring, riots in the United Kingdom, middle-class protests in Israel, Chilean students taking to the streets, India's anti-corruption movement, mounting discontent with corruption and inequality in China, the *'indignados'* (outraged) in Spain and across Europe, and the 'Occupy Wall Street' movement in the United States. In different ways, these protests express the serious concerns of the world's working and middle classes about their prospects in the face of the growing concentration of power among economic, financial and political elites. The causes of their concern are clear enough: high unemployment and underemployment, resentment against corruption, including legalized forms like lobbying, and a sharp rise in income and wealth inequality (Roubini).

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27 All GDP estimates based on PPP in current international $ from the World Bank's *World Development Indicators* (2012).

28 Herman, B. 2011. "G20: Wrong International Forum for Development." The New School Working Paper.

The need for broad-based, socially-inclusive and sustained recovery has never been greater. Some wonder how deep the crisis needs to be before leaders are compelled to act. Yet by then they will have created much unnecessary human suffering and despair (Chang), and for many millions of children around the world, it might simply be too late.

The next section presents a summary of the more detailed discussions of 'Recovery with a Human Face,' including: distributional impacts, employment and wages, food prices, debt and fiscal space for socio-economic recovery, a green new deal, retrogression in human rights, ideology and the crisis, and the need for equitable policies.

2. Key Topics of the Global Economic Crisis

2.1. Distributional impacts: Winners and losers

The crisis is having deep impacts on populations all over the world. Yet while the crisis was largely caused by a speculative frenzy driven by reckless bank lending practices in financial markets in the United States and Europe, the highest costs continue to be borne by ordinary citizens, especially by vulnerable populations, making them the real losers of the crisis. As described by Save the Children, the books are being balanced "on the backs of the world's most vulnerable children" (Espey and Garde).[29]

It must be noted that while the world has given top priority to real-time economic and financial data, global leaders have placed little urgency on acquiring time-sensitive social indicators. As a result, while we know today's exchange rates, inflation levels, interest rates, trade volumes and stock market indices, we don't have real-time data on malnourishment, hunger or other deprivations that are affecting children and their families. With the exception of unemployment information, comprehensive data that allow us to evaluate the full aggregate impacts of the crisis are not yet available in 2012. Additionally, many of the human impacts associated with prolonged bouts of malnutrition, such as poor health and rising mortality rates, may only appear in the longer-term.

Still there is significant evidence emerging from ad hoc surveys and studies. For example, the UN Report on the *World Social Situation 2011: The Global Social Crisis*[30] shows a wide range of negative social impacts lingering from the economic downturn, such as increased poverty, unemployment, malnutrition, crime, domestic violence and substance abuse (Lee). As noted earlier, the World Bank estimated that an additional 64 million people could fall into extreme poverty during 2010 due to the combined and lingering effects of the crisis. In addition, the Women in Informal Employment: Globalizing and Organizing (WIEGO) showed the effects of the crisis on the urban working poor: home-based producers, street vendors and waste pickers had to work much longer hours to survive (Chen, Horn).[31] Moreover, Oxfam found that poor families were exhausting available coping strategies in 2008-

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29 Espey, J. and M. Garde. 2010. "The Global Economic Crisis. Balancing the Books on the Backs of the World's Most Vulnerable Children?" G20 Brief, Save the Children UK.

30 United Nations. 2011. World Social Situation 2011: The Global Social Crisis. New York: UN-DESA.

31 Horn, Z. 2009. "No Cushion to Fall Back On: The Global Economic Crisis and Informal Workers," Inclusive Cities Study. Cambridge: WIEGO. And Horn, Z. 2011. "Coping with Crises: Lingering Recession, Rising Inflation and the Informal Workforce," Inclusive Cities Study. Cambridge: WIEGO.

09, such as eating fewer meals, cutting family expenditures on health and other areas, increasing debt and working longer hours in the informal sector (King).[32]

Employment data reflect that high unemployment continues to affect much of the globe. ILO labour statistics showed a distressing increase in unemployment—both in terms of the overall rate and number of persons—in 2010 and 2011 in many developing countries. Mass unemployment in higher-income countries precipitated a fall in international remittances since 2009. The World Bank estimated that remittances to LICs declined by almost 7 percent in 2009, to US$317 billion. This posed a huge threat to poor households, who in the face of external shocks, commonly depend on remittances to purchase essential foodstuffs, send children to school and receive healthcare (Espey and Garde). Furthermore, UNICEF reported that reduced remittances were having an impact on children left behind.[33]

Households have also been dealing with unabatedly high food prices since 2008. According to the FAO's Food Price Index, global food prices surpassed the peak levels of the 2007-08 food crisis by January 2011 and continued to set new record highs, adding further hardship to poor families. UNICEF reported increased incidences of hunger and malnutrition in 2008-09, deterioration in acute malnutrition in Afghanistan, the Niger, Sierra Leone and Uganda, and higher acute malnutrition rates among the urban poor of Cambodia, Kenya, the Republic of Congo and Tanzania. More on unemployment and food security can be found in later sections.

In an environment of increasing risks to poor households, levels of public assistance appear to be diminishing. In 2012, 133 countries are expected to reduce public expenditures, 94 of them developing countries, and 39 countries are undergoing excessive contraction.[34] While aggregate budget cuts are likely affecting social sector allocations, UNICEF analysis further shows that the main austerity measures being considered by governments to achieve expenditure consolidation are posing serious threats to vulnerable children and their families. In particular:

- *Wage bill cuts or caps* are under consideration in 73 countries. This fiscal consolidation strategy can jeopardize the delivery of essential services to children and poor families through lower salaries and/or numbers of teachers, medical staff and social workers. Low pay is also a key factor behind absenteeism, informal fees and brain drain, which can further hinder service delivery, especially in rural areas. For example, the real pay of teachers and nurses decreased by 20-30 percent in LICs such as the Democratic Republic of Congo, Madagascar, the Sudan and Yemen in the first years of the crisis.[35]

- *Reducing or removing subsidies*, such as those supporting food or fuel prices, is being considered in another 73 developing countries, including many LICs. When basic subsidies are withdrawn, food and transport costs increase and become unaffordable for many households; higher energy prices also tend to contract employment-generating economic activities. Given that malnutrition inflicts

[32] Green, D., R. King and M. Miller-Dawkins. 2010. The Global Economic Crisis and Developing Countries: Impact and Response. Oxford: Oxfam GB.

[33] UNICEF. 2010. "The Children Left Behind: A League Table of Inequality in Child well-being in the World's Rich Countries". Innocenti Research Center Report Card 9. Florence: UNICEF Innocenti Research Centre.

[34] Defined as cutting 2012 spending below pre-crisis levels in terms of GDP; Ortiz, I., J. Chai and M. Cummins. 2012. "Austerity Measures" in Ortiz and Cummins (eds) *A Recovery for All: Rethinking Socio-Economic Policies for Children and Poor Households.* New York: UNICEF Division of Policy and Practice.

[35] Chai, J., I. Ortiz and X. Sire. 2010. "Protecting Salaries of Frontline Teachers and Health Workers." Social and Economic Policy Working Brief, UNICEF.

irreversible physical and mental harm on infants and young children, it is important that food subsidies are maintained unless a well-functioning social protection system is in place that can ensure that vulnerable populations have adequate access to food and nutrition.

- *Rationalizing social protection schemes* is another common cost-cutting option being considered in 55 countries, including the reform of old-age pensions in another 52 countries. This is expected to be achieved through reducing coverage or benefits, often by further targeting social safety nets. This policy approach runs a high risk of excluding large segments of vulnerable populations—either through timing mismatches or exclusion errors—at a time when they are most in need.

Big spending cuts took place at federal, state and local levels in the United States during 2011. The immediate impact has been lower high school graduation rates, higher child poverty and a high percentage of children without health insurance. The call for austerity also brought steep spending cuts to Medicaid, a public program that is vital to protecting the health of many of the country's most disadvantaged children. In Texas, for example, the proposed funding cuts to Medicaid amounted to a staggering 30 percent, while, in terms of education, school administrators talked about laying off as many as 100,000 public employees (Krugman). In response to these drastic cuts, many have called attention to the US$15 billion that Goldman Sachs set aside to compensate its executives at a time when the state of California was slashing its education budget by US$1.5 billion (Wolff).[36]

An analysis of the winners and losers of the crisis must further consider that, particularly in the economies of the OECD, a large share of stimulus packages included tax cuts, mainly through reductions in personal income tax for the wealthy. Thus, ironically, while fiscal stimulus packages mainly benefited wealthier income groups—not the poor—during the first phase of the crisis, budget cuts are disproportionately impacting the poor during the second phase. The massive bailouts for the financial industry further indicate that the real problem in addressing this global crisis was not the availability of money, but rather the lack of political will. In fact, the amount of money needed annually to achieve the MDGs is a miniscule fraction of the estimated trillions of public money that was mobilized for bank bailouts (Caliari).[37]

The *Social Watch Report 2012: The Right to a Future*[38] argued that countries like Brazil, China and India, in which fiscal stimulus programs were largely directed to support the poor in different ways, have recovered faster from the crisis than industrialized countries, which, on the contrary, bailed out banks and gave tax breaks to the wealthy. In these major emerging economies, public expenditures were directed to protecting jobs and wages, expanding social services and/or providing income support to the poor through direct cash transfers (Bissio). The alternative approach adopted by many high income countries casts doubts over their long-run capabilities, especially when the future labour force is blighted by childhood poverty, bad health and poor education. In response to this reality, Paul Krugman asked, what is supposed to happen when today's neglected children become tomorrow's work force?

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36 Wolf, R. 2011. "Bonuses for Bankers, Bankruptcy for Public Services." *The Guardian*, January 20.

37 ESCR-Net. 2011. *Bringing Human Rights to Bear in Times of Crisis: A human rights analysis of government responses to the economic crisis*. New York: International Network for Economic, Social and Cultural Rights (ESCR-Net).

38 Social Watch. 2012. *Social Watch Report 2012: The Right to a Future.* Montevideo: Social Watch.

2.2. Employment and wages

One of the most visible effects of the economic crisis in both developing and developed countries is widespread unemployment and underemployment. It must be noted that unemployment rates are insufficient indicators since they typically only capture those persons claiming unemployment benefits, which are usually confined to a limited number of months, and hide the long-term unemployed. At the global level, trends in the employment-to-population ratio—a more robust indicator—powerfully illustrate that many economies are simply not generating sufficient job opportunities to absorb the growth in working-age populations. Additionally, more than 120 million potential new young workers are entering the global labour market each year, 89 percent of which are from developing countries (Ortiz and Cummins).[39]

The ILO's *World of Work Report 2011*[40] warned that the cooling global economy risks pushing the world into a double-dip jobs recession and triggering an outbreak of social strife unless governments take urgent action to stimulate employment growth. The report goes on to paint a grim picture of the future of global employment. While private enterprises are in an even weaker position to retain employees since the start of the crisis, austerity measures are contributing to the growing numbers of unemployed (Torres). The picture is even bleaker when considering the unemployment rate for youth, which jumped to unprecedented levels in many countries (Nayyar); the percent increase in youth unemployment globally was over twice that for the overall working population (Miller).

Yet the crisis merely exacerbated existing labour market vulnerabilities that had developed during the years of jobless growth leading up to it, which brings into question the long-term sustainability of the growth/employment model of development. While generating decent employment is generally acknowledged as a primary development objective, the pattern of job creation in recent years has been the opposite: increased labour insecurity and segmented labour markets characterized by large wage differentials. Moreover, the record of the past 30 years has shown not only that global growth is in long-term decline (excluding the exceptional spike achieved in 2003-07 in a few higher-income countries thanks to unsustainable credit and housing bubbles), but that higher productivity has led to lower employment elasticity, such that even in a high growth economy like China, manufacturing employment has fallen considerably from its peak in 1995 (Shutt).

Furthermore, over the last two decades, rising non-standard and informal employment have become important factors of personal income and factor inequality (van der Hoeven). For example, there has been a continuing shift from protected employees, with high lay-off costs and generous enterprise benefits, to two forms of temporary workers with much lower wages and benefits (no paid holidays, maternity leave, sickness leave, pension benefits, and so on). There has also been a growth of outsourcing to contractors and labour brokers. The discussion further questioned how governments are to support employment by liberalizing their labour laws at a time of declining labour demand (Ugarteche, Rodrik).

Beyond employment, another main issue is labour market liberalization and the erosion of social guarantees. The more urgent reforms being pushed through many legislatures largely aim at reducing the cost of firing workers and making it easier for employers to dismiss them. The assumption is that, at

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39 Ortiz, I. and M. Cummins. 2012. "When the Global Crisis and Youth Bulge Collide: Double the Jobs Trouble for Youth". Social and Economic Policy Working Paper, UNICEF.

40 ILO. 2011. *World of Work Report 2011*. Geneva: ILO.

the same level of aggregate demand, employers are more reluctant to hire workers when they expect to be unable to dismiss them during a downturn (or that it will be prohibitively costly to do so). This can then keep unemployment high (Ranis). These reforms are being pursued even in economies, such as Spain, where unemployment has risen to 23 percent—with youth unemployment affecting nearly 50 percent of those aged 16-24—and domestic demand has yet to recover.[41]

However, the experience of several countries suggests that there is not a direct relationship between the liberalization of labour markets and more employment generation or the reduction in informal unemployment. For example, Chile and Colombia liberalized labour legislation and reduced the costs of hiring and firing workers, but unemployment remains high and informal unemployment has grown larger (Puyana).

While the proletariat is being squeezed, a global 'precariat' is emerging and increasing in size. In an open economic system, labour market convergence has been promoted, which inevitably impacts earnings and social benefits (Standing, van Ginneken). With wages in emerging economies one-fiftieth of those in OECD countries, that had to mean sharp falls in the latter, which was politically intolerable. The decline in wages and benefits was offset in ways designed to slow the transfer of industrial jobs to emerging market economies, through subsidies, tax credits and cheap credit. For two decades, center-right and social democratic governments accepted this 'Faustian' bargain (Standing).

This has contributed to the emergence of the 'precariat,' which is a class-in-the-making. In particular, a large and growing number of people across the world are living and working precariously, usually in a series of short-term jobs, without recourse to stable occupational identities or careers, without reliable social protection support and without protective regulations that are relevant to them. The 'precariat'—as this new class has been coined—could potentially produce new instabilities in society. They are increasingly frustrated and dangerous because they have no voice, and hence they are vulnerable to the siren calls of extreme political parties (Standing).[42]

This long-predicted explosive mixture of youth demographics (the 'youth bulge') and high rates of unemployment formed the basis for the Arab Spring that transformed the Middle East and North Africa. It was not only unemployment that drove young people to the streets, but the unfairness of this unemployment (Miller). These developments reflect the fact that adjustment policies in the 1980's, market liberalization policies in the 1990's and, more recently, globalization and anti-poverty policies in the 2000's did not pay sufficient explicit attention to policies for employment and income redistribution (van der Hoeven).

Social and political turmoil and instability was not limited to contexts with this demographic composition, however. Masses of people poured into the real and virtual streets around the world. These various protests and manifestations expressed in different ways the serious concerns of the world's working and middle classes, with high unemployment and underemployment in advanced and emerging economies, and inadequate skills and education for young people and workers to compete in a globalized world (Roubini).[43]

[41] Economist Intelligence Unit. 2012. "Spain Economy: Labour Pains." *ViewsWire*, February 07.
[42] Standing, G. 2011. *The Precariat – The New Dangerous Class*. London: Bloomsbury.
[43] Roubini, N. 2011. "The Instability of Inequality." *Project Syndicate*, October 13.

These are some of the imbalances and consequences of globalization that have been exacerbated by the crisis. Dani Rodrik argued that from the mercantile monopolies of seventeenth-century empires to the modern-day authority of the World Trade Organization (WTO), the IMF and the World Bank, nations have struggled to effectively harness globalization's promise.[44] The decrease in productivity differentials between the North and the South led to a 'race to the bottom.' In particular, many companies have shifted their operations to the South seeking cheap labour, lower taxes or tax avoidance, subsidies from governments, and lax social and environmental regulations, among others. The present model of globalization forces Southern countries into global tax and subsidy competition in order to attract investors at a cost to their people (Kelles-Viitanen). India's Ministry of Finance has, for example, been calculating how much tax revenue the country is losing in this manner, money which is direly needed for social programs.

A mechanism proposed to avoid this 'race to the bottom' is a global minimum wage system.[45] That does not mean imposing United States or European minimum wages in developing countries, but rather establishing a global set of rules for setting country minimum wages. Traditionally, minimum wage systems set a fixed wage that is periodically adjusted. Such an approach, however, is fundamentally flawed and inappropriate for the global economy. Instead, countries could set a minimum wage that is a fixed percent (say 50 percent) of their median wage. This design has several advantages, including: (i) the minimum wage will automatically rise with the median wage, creating a true floor that moves with the economy; (ii) the minimum wage is set by reference to local economic conditions and reflects what a country can bear; (iii) countries can still set a higher minimum wage if so desired; and (iv) the global minimum wage system would only set a floor, not a ceiling (Palley).

Falling short of purporting a global minimum wage, other contributors discussed how government budgets need to include programs to support employment, not just in terms of regulation, but also through active labour market strategies, such as wage matching schemes or public work schemes that guarantee a minimum level of employment at minimum wage. An increase in the share of wages in GDP would be conducive to growth everywhere, which is possible if wages keep pace with productivity growth and full employment is the primary objective (Nayyar).[46] Corrective actions need to be taken, and fiscal stimuli should give special attention to employment and contribute to reducing income inequality; these types of policies should now become an integral part of national and international economic policymaking (van der Hoeven).[47]

The issue of employment creation has become even more pressing given the demographics in many countries around the world. Policymakers, driven as much by fear as by a desire for social justice, are grappling with how to create employment for young people. The conventional wisdom on youth employment privileges two approaches: (i) vocational education and training; and (ii) entrepreneurship development for self-employment. However, these approaches are not solving the jobs problem. Perhaps rather than telling young people that unemployment is their own fault since they are not ready

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[44] Rodrik, D. 2011. *The Globalization Paradox: Democracy and the Future of the World Economy*. New York: W. W. Norton & Company.

[45] Palley, T. 2012. *From Financial Crisis to Stagnation: The Destruction of Shared Prosperity and the Role of Economic Ideas*. Cambridge: Cambridge University Press.

[46] Nayyar, D. 2011. "The Financial Crisis, the Great Recession and the Developing World." *Global Policy* 2(1): 20-32.

[47] van der Hoeven, R. 2010. "Employment, Inequality and Globalization: A Continuous Concern." *Journal of Human Development and Capabilities* 11(1): 1-9.

for the labour market, or that they should create their own job through self-employment, it is time to consider approaches that create new, additional and decent jobs for those entering the labour market, namely young people (Miller).[48]

Decent jobs will require different national development strategies that focus on employment-sensitive macroeconomic and sector policies and labour policies and standards.[49] On the one hand, monetary and fiscal policies could aim to boost aggregate demand (e.g., a tight monetary policy focused on containing inflation does not generate jobs), while exchange rate, technology and trade policies could prioritize stimulating output growth, accompanied by gradual and sequential trade opening to support it. On the other hand, given that most poor people work long hours but are unable to bring their families out of poverty, employment policies must not solely focus on creating jobs but also on ensuring adequate wages, labour standards and working conditions (Ortiz and Cummins).

2.3. Food prices

The financial crisis exacerbated already high food prices throughout the world, ushering in new spikes. The United Nations Conference on Trade and Development (UNCTAD) shows that commodity price indices displayed record volatility from 2001 through 2010, climbing at an annual average rate of 12.2 percent per year, a sharp change from the two preceding decades when they increased by only 0.5 percent per year (1981 to 1990) and then fell by 1.3 percent per year (1991 to 2000). The price of cereals, an important food staple that accounts for more than two-thirds of dietary calories among populations in many developing countries, jumped a staggering 57 percent from June to December 2010 (Flassbeck).[50] The price of rice, the most important staple food for much of the world's population, showed the sharpest increases between 2001 and 2010, climbing by an average of 15 percent per year. In January 2011, the international food price index surpassed levels reached during the 2007-08 food crisis.

Extreme price movements of agricultural commodities not only threaten the food security of millions of people but also the economic recovery and social stability of developing countries. Soaring global food prices are due to a variety of factors. While some quote weather shocks or the rise of Chinese and Indian food demand, many point to the rapid increase and high volatility of primary commodity prices, which correlate to heightened speculative activity in commodity futures markets in recent years. Interestingly, aggregate food grain consumption in both China and India actually decreased when global food prices were rising sharply in 2007-08. Subsequently, food price volatility has not been associated with real demand and supply movements. For example, global wheat prices doubled between June and December 2010 when global wheat output actually increased. This was driven partly by fears generated by the failure of the Ukraine harvest and the Russian ban on wheat exports, but largely powered by financial activity in futures markets (Ghosh).[51] [52] [53]

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48 Lal, R., S. Miller, M. Lieuw-Kie-Song and D. Kostzer. 2010. "Public Works and Employment Programmes: Toward a Long-term Development Approach." Working Paper No. 66, UNDP International Policy Centre for Inclusive Growth.

49 United Nations. 2008. *National Development Strategies, Policy Notes*. New York: UN-DESA.

50 UNCTAD. 2011. *Handbook of Statistics*. Geneva: UNCTAD.

51 Ghosh, J. 2009. "The Unnatural Coupling: Food and Global Finance." *Journal of Agrarian Change* 10(1): 72-86.

52 UNCTAD. 2011. Price Volatility in Food and Agricultural Markets: Policy Responses. Geneva: UNCTAD.

53 UNCTAD. 2011. Price Formation in Financialized Commodity Markets: The Role of Information. Geneva: UNCTAD.

A similar story was seen with copper, which accounts for over half of Chile's exports. While the price of copper peaked above US$4.00 per pound in 2007-08, right in the midst of the crisis, at the same time demand was contracting severely and output was still expanding. Within a few days, however, copper prices collapsed to US$1.40 per pound, only to rise again to new record highs (US$4.50 per pound) during 2011. These price movements correlated perfectly, not to the increase of global demand, which has in fact stagnated, or to output, which has continued to increase, but rather to monetary expansion, mainly in the United States (Riesco).

Some contributors questioned whether the recent volatility in commodity markets may precipitate another financial crisis. Akyüz and Pettifor noted that there have been three generalized boom-bust cycles in private capital flows since the end of the Second World War, all with devastating impacts on developing and emerging markets. The first started in the late 1970s and ended with the Latin American debt crisis in the early 1980s. The second began in the early 1990s, which was followed by the East Asian financial crisis of 1997-98 as well as sovereign defaults in Latin America and the Russian Federation. And the third cycle commenced in the early years of the new millennium, ending in the second half of 2008 with the subprime mortgage crisis. However, this was quickly followed by a new boom, a boom of commodity markets which have become like financial markets. This fourth boom in the post-war era started in the first half of 2009 and continues in full force in 2012 (Pettifor).[54]

The impact of this trend on households at the local level is devastating. While international prices are volatile, an analysis of local food prices in 55 developing countries by UNICEF (Ortiz, Chai and Cummins) found that, on the aggregate, domestic food price levels are sticky and have remained alarmingly high compared to pre-2007-08 crisis levels (about 80 percent higher, on average, in early 2012 compared to May 2007), implying that poor and vulnerable populations in many developing countries have been relentlessly coping with high food costs.[55] Since 2008 poor households have exhausted coping strategies, and their capacity for resilience is very limited in 2012.

Living on a Spike, a report by Oxfam and the Institute of Development Studies,[56] provides valuable insights on the impacts of high food prices over time. Using focus groups and other participatory techniques in eight community 'listening posts' in Bangladesh, Indonesia, Kenya and Zambia, the study finds that the recent food price spike has increased inequality, producing a pattern of "weak losers and strong winners." The losers—those already struggling in low-paid, informal sector occupations, such as petty trading, street vending, casual construction work, sex work, laundry, portering and transport—are doing worse. Despite the high price of food, small-scale farmers and small market food traders have also fared poorly. In particular, increased input costs and the squeeze on people's purchasing power have meant that profits from growing and selling food remain low. And this is affecting those persons who have very limited capacity to diversify and spread their risk (Green).

People are adjusting to high food prices in complex ways. While some are eating less and going hungry, the more common pattern is to shift to lower quality and less diverse diets. The effects differ greatly by

54 Akyüz, Y. 2011. "Coming Soon: Another Global Financial Crash? Capital Mobility and the Commodity Mania." *Debtonation*, May 10.

55 Ortiz, I., J. Chai and M. Cummins. 2012. "The Food Price Surge" in Ortiz and Cummins (eds) *A Recovery for All: Rethinking Socio-Economic Policies for Children and Poor Households.* New York: UNICEF Division of Policy and Practice.

56 Hossain, N. and D. Green. 2011. *Living on a Spike: How is the 2011 Food Price Crisis Affecting Poor People?* Oxford: Institute of Development Studies and Oxfam GB.

gender: women come under more pressure to provide good meals with less food, and they also feel the stresses of coping with their children's hunger most directly. Oftentimes, women simply go without eating. These stresses push women into poorly paid informal sector work, competing among themselves for increasingly inadequate earnings. Men also feel the effects: the food price rises severely undercut their ability to provide for their families, leading to arguments in the household and fuelling alcohol abuse and domestic violence. Governments have provided some support, but this has generally failed to adequately protect people from the effects of rising prices (Green).

Young urban men appear particularly angry about the failure of governments to act. With revolutions in the Middle East and North Africa and other protests against governments in Europe, the stress and discontent fuelled by high food prices merits close attention by the G20 agriculture ministers (Green). To restore the price stability, which is in the interest of farmers as well as consumers (but not of speculators), a twin-track approach of short- and long-term interventions is needed to support consumers and poverty reduction, boost agricultural production, and reverse much of the deregulation of global markets that has occurred over the past 30 years (Ortiz, Chai and Cummins).

2.4. Debt and fiscal space for socio-economic recovery

Public and private debt has been at the center of recovery debates. Massive borrowing led Greece, Ireland, Portugal, Spain, Italy and other countries into massive sovereign debt crises. But how did this borrowing frenzy start? Mediocre income growth for everyone but the rich in the last few decades opened a gap between incomes and spending aspirations. In Anglo-Saxon countries, the response was to democratize credit thereby fueling a rise in private debt, with households borrowing to make up the difference (Fortin, Taylor, Wolff). In Europe, the gap was filled by public services, including free education and healthcare, which were not fully financed by taxes and fueled public deficits and debt. In both cases, debt levels eventually became unsustainable (Roubini).

In the United States, where a deficit ceiling showdown took place, politicians did not explore alternatives to massive deficits and debts because government deficits and debts mean: (i) the government is not taxing corporations and the rich; and (ii) the government is instead borrowing from them and paying them interest. So the two ruling parties quibbled over how much to cut and which government jobs and public services. Yet the tax burdens of corporations and the richest citizens in the United States are significantly lower than in most other advanced industrial economies. Shifting the burden of federal taxation from corporations to individuals and from the richest individuals to the rest of the population contributed to the massive deficits and debts. Instead of correcting and reversing that unjust shift, politicians instead plan to deal with this by cutting social expenditures that help vulnerable populations (Wolff).

In Europe, Greece, Ireland, Portugal, Spain and Italy had been struggling to cope with the inadequate arrangements of the Euro. As previously stated, countries in the Eurozone do not have the option to print money or devalue their currency due to the loss of monetary policies. As a result, they have been forced to rely on private capital markets to lend to them (Khor, Weisbrot, Vernengo).

The focus on debt/deficit reduction ushered in a second phase of the crisis, which saw a great push for austerity. This, combined with an increased pressure for fiscal consolidation, severely limited fiscal and policy space in developed economies. Many developing countries also came under pressure to cut public expenditures, undertake austerity measures, reduce the scope of government action and further liberalize labour markets (Lee).

Austerity led activists and academics around the world to begin questioning the legitimacy of the debt that was provoking such harsh and damaging measures. It was argued that public debt operates like a mask behind which lies a shadowy world of creditors who have entire economies mortgaged to them. The necessity for lifting the mask has been brought up in many countries, and some have indeed achieved this through the mechanism of debt audits. The aim of such initiatives is to untangle the web of secrecy around public debt and to work out who lent what to whom, when and for what purpose. There is typically an expectation that at least a portion of the debt will be found to be 'illegitimate,' and can therefore be repudiated. In Europe, campaigns for debt audits also have an important educational function. People in core countries, including Germany, do not seem to have yet grasped the reality that the loans provided by the European Union (EU) and the IMF are not bailing out Mediterranean and Irish citizens, but rather private banks that engaged in profitable and irresponsible lending throughout the 2000s (Lapavitsas, Storey).[57]

In 2008, Ecuador became the first country to hold an official audit to assess the legitimacy of its sovereign debt.[58] The government-commissioned, two year-long investigation concluded that some of its foreign debts had broken multiple principles of international and domestic law and were therefore deemed 'illegitimate'—these were mostly private sector debts that had been nationalized by former governments. While Ecuador respected all of the debt that had contributed to the country's development—the so-called 'legitimate' debt—it defaulted on its alleged illegitimate debt in November 2008 and bought this back at 35 cents to the dollar just a few weeks later. Based on the experience of Ecuador, as well as Norway, a special UN Commission of Experts on Reforms of the International Monetary and Financial System came out in support of public debt audits as a mechanism for transparent and fair restructuring of debts. Debt audits are ongoing in several other countries, such as Bolivia, Brazil, Greece, Ireland and the Philippines (Lapavitsas, Storey).

In Ireland, a debt audit proved conclusively that the Irish debt crisis is a crisis of private (subsequently socialized) debt and not public debt.[59] In particular, the allegedly 'bloated' nature of public services, or 'generous' welfare entitlements, did not cause the sovereign debt crisis. In fact, the audit found that "the bulk of Irish government debt [arose] directly from the banking crisis, the decision in September 2008 to rescue all of the Irish banks." The lack of transparency means that faceless market actors are exercising enormous influence over Irish government policy, which violates fundamental democratic principles that power should be exercised in an open and accountable manner (Storey).

Similarly, a national referendum was held in Iceland in March 2010 that allowed its citizens to vote on whether and how the country should repay its debts claimed by the Netherlands and the United Kingdom. This was not a sovereign debt issue; a private Icelandic bank held €6.7 billion in deposits from British and Dutch savers, and, when it collapsed, the respective governments decided to make this debt public. In the referendum, Icelandic voters delivered a resounding 'no' (more than 90 percent) to reimburse the Dutch and British governments and the orthodox policies that would have accompanied the debt repayment plan. The recent referendum in Iceland and social debt audits, such as in Ecuador,

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57 Lapavitsas, C. and A. Storey. 2011. "Can Europe Escape the Debt Trap? Yes—and Here's How." *The Guardian*, May 04.

58 Auditing Commission of Public Debt in Ecuador. 2008. *Final Report of the Integral Audit of Ecuador's Debt.* Quito: Government of the Republic of Ecuador, Ministry of Finance; Jubilee Debt Campaign. 2008. "Ecuador Delivers Historic Audit." *Jubilee Debt Campaign News*, October 16.

59 Killian, S., J. Garvey and F. Shaw. 2011. *An Audit of Irish Debt*. Limerick: University of Limerick.

underscore the idea that citizens have concerns about illegitimate sovereign debt and the high social costs.

Legitimate or not, countries need to work out their debt problems. At present, there are no adequate forums to do this. The absence of a restructuring mechanism is both costly, unfair and a glaring gap in international financial architecture. Many countries, if not this time then the next, will need to reschedule, restructure or even default on their debt (Herman). Thus more often than not, debt workouts result in crisis-stricken debtors and disgruntled creditors. This gaping systemic 'hole' has resulted in enormous IMF and national government bailouts, from US$50 billion for Mexico's peso ('tequila') crisis to a staggering US$1,000 billion for Europe's current crisis.[60] These bailouts go the pockets of private creditors and are paid for by taxpayers and citizens across the world.

Every crisis has spawned an effort to create a just system for sovereign debt restructuring. Mexico proposed a mechanism in 1933, Harry Dexter White included such a function in his initial drafts of the IMF articles in the 1940s, UNCTAD saw such a regime as core to a 'New International Economic Order' in the 1970s, and, most recently, the IMF issued a call for a 'Sovereign Debt Restructuring Mechanism' in the wake of Argentina's financial crisis. Each time such attempts have failed, largely because creditors like the upper hand they currently hold and because debtor nations are wary of supporting such an initiative in fear that they might be seen as default-prone. Leadership is thus in order. While up to this point the G20 has been little more than a talk shop, it should take the lead in creating a just, sovereign, debt-restructuring facility (Gallagher).[61] [62]

The capacity to sustain a given level of public debt is a function of investors' perception of the ability of a government to service that debt. This depends on different factors that vary by country. In many countries, there seems to be a belief that stimulus-based policies will ultimately succeed in restoring equilibrium without any need for substantially writing off massive debts crippling the world economy. Yet the reality is more akin to the situation facing Argentina ten years ago, which was only resolved by substantial debt default. At the global level, of course, such a wholesale repudiation of debt—entailing huge capital destruction—would have catastrophic financial, macroeconomic and social consequences, which could only be alleviated by drastic remedial state intervention. Thus any realistic 'Plan B' must entail collective action on a massive scale—at both national and international levels—to support activity and protect the most vulnerable. Global elites, who stand to lose the most from the inevitable wipe-out of so much debt and equity, will of course do anything to avoid recognizing this reality. But if we are serious about averting global disaster and giving hope to the world's poor, there is little choice but to confront large-scale default. In the aftermath, it will be essential to reorder economic priorities, placing less emphasis on growth and more on equitable income distribution (Shutt).

The idea of insolvency protection for member of the EU has been voiced officially. While this is a step in the right direction, there is no logical justification for this solution to be restricted to European countries and not be available to any others. The 'Fair Transparent Arbitration Process' has been suggested by

[60] New York Times Editorial. 2011. "Europe's Bailout." *New York Times*, May 10.

[61] Gallagher, K. 2011. "The New Vulture Culture: Sovereign Debt Restructuring and Trade and Investment Treaties." IDEAs Working Paper No. 02/2011, International Development Economics Associates (IDEAS).

[62] UNCTAD. 2011. "Sovereign Debt Restructuring and International Investment Agreements." IIA Issues Note No. 2, UNCTAD.

Kunibert Raffer.[63] Unlike the 'Sovereign Debt Restructuring Mechanism,' this proposal treats everybody correctly, does not discriminate against the private sector and does not legalize a preferred creditor status of multilateral institutions, such as the IMF, whose de facto and illegal enforcement makes debt management so much more difficult (Raffer).[64]

Still many efforts toward financial reform can get snared in existing treaties. For example, sovereign debt restructuring could be deemed illegal under thousands of international trade and investment agreements. In effect, private bondholders can sue a government for reducing the value of the initial bond purchase if a debt restructuring violates clauses of national treatment, expropriation, or fair and equitable treatment. Such treaties thus undermine the ability of nations to recover from financial crises and broaden the impact of such crises. This underscores the importance of reforming trade and investment agreements so that they grant nations and the international community the policy space to prevent and mitigate financial crises (Gallagher).

The e-discussion also called attention to past lessons. In many regards, the situation of Greece, Ireland, Portugal, Spain or Italy today is similar to that of African countries in the mid-1980s, which were crippled by similar debt crises and subjected to external monitoring and interference. Rigorous monetarist discipline not only stopped growth in its tracks, but also undermined human welfare and, in many cases, destroyed the social contract. Progressive economists in the 1980s coalesced around the idea of 'Adjustment with a Human Face,' accepting the need for macroeconomic stabilization and structural reform, but also insisting on protecting the most vulnerable populations and ensuring the delivery of basic social services. In other words, this approach recognized that structural adjustment is a necessary process but that it also has high human costs. Poor people need to be supported as consumers and also as producers, and the international community has to cohere around high-level human development goals. Financing is key, including, if appropriate, through debt relief (Maxwell).

A policy proposal that re-gained momentum in the wake of the crisis was a global financial transaction tax. More commonly known as the 'Tobin tax' after the Nobel Prize economist who first proposed it, a financial transaction tax has been widely considered by the IMF and many countries in Europe, including the EU. And there is a strong chance that it will someday be implemented, in spite of the financial sector's resistance (Kelles-Viitanen). At a global level, such a tax could reduce speculation and inequality, and bring in new money to fund government expenditures (van Ginneken). A Tobin tax could also help balance the distribution of taxes between labour and capital (e.g., labour is taxed much more heavily than capital) and further ensure that the financial sector makes a fair contribution to government budgets to mitigate fiscal consolidation processes.

In current debates, it is often argued that government expenditure cuts are inevitable, and that social and economic investments that benefit poor households are unaffordable. UNICEF, however, has shown that there are a variety of alternatives, even in the poorest countries. These include: (i) re-allocating public expenditures; (ii) increasing tax revenues; (iii) lobbying for increased aid and transfers; (iv) fighting illicit financial flows; (v) tapping into fiscal and foreign exchange reserves; (vi) borrowing and

[63] Raffer, K. 2011. "Arbitration to Solve the Debt Problem." In B. Herman, F. Pietracci and K. Sharma eds., *Financing for Development, Proposals from Business and Civil Society*. New York: United Nations University Press.

[64] Raffer, K. 2002. "Memorandum, Select Committee on International Development, Appendix 15." United Kingdom Parliament.

restructuring existing debt; and/or (vii) adopting a more accommodative macroeconomic framework (Ortiz, Chai and Cummins).[65]

The need to increase fiscal space for social and economic investments has never been greater. Just at a time when populations are most in need of public assistance, fiscal contraction is intensifying and spreading quickly across the developing world. Given the significance of public investment in enhancing the prospects for equitable, inclusive economic growth and social development, including the achievement of the MDGs, it is critical that governments explore options to ramp up social spending and employment-generating economic investments during—and in support of—the recovery. Only expansionary policies can open a path toward lower fiscal deficits and falling public debt ratios. Moreover, a 'lost decade' for the world economy would risk the development gains achieved during recent years and question the ability of democratic governments to tackle the most urgent challenges of our age (Flassbeck).[66]

2.5. A Green New Deal?

In order for populations in developing countries to achieve a decent living standard, especially the billions who currently still live in conditions of abject poverty and the additional two billion people who will have been added to the world's population by mid-century, much greater economic progress is needed. Continuation along previously trodden economic growth pathways will further exacerbate the pressures exerted on the world's resources and natural environment, which will approach limits where livelihoods are no longer sustainable. As a result, business as usual is simply not an option (Martinez Alier, Vos).

Thus, in the next three to four decades, humankind must manage a fundamental technological overhaul or risk failure in fulfilling global commitments to end poverty and averting the catastrophic impacts of climate change and environmental degradation. The UN *World Economic and Social Survey 2011* analyzes the options and challenges associated with the shift to more efficient and renewable energy technologies.[67] This also involves transforming agricultural technologies so as to guarantee food security without further degrading land and water resources, as well as applying the technologies to adapt to climate change and reduce the human risks associated with the increasing frequency of natural hazards.

Governments will have to take a leading role through implementing investment and incentive schemes designed to accelerate green technological innovation and structural change directed toward sustainable production and consumption. Strengthened international cooperation and significant adjustments in multilateral trade and financing mechanisms will also be needed if developing countries are to realize the necessary technological transformation without compromising their aspirations in terms of growth and poverty reduction. A '*Recovery for All*' must and can be sustainable (Vos).

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65 Ortiz, I., J. Chai and M. Cummins. 2012. "Identifying Fiscal Space" in Ortiz and Cummins (eds) *A Recovery for All: Rethinking Socio-Economic Policies for Children and Poor Households.* New York: UNICEF Division of Policy and Practice.

66 Flassbeck, H. 2011. "On the Brink: Fiscal Austerity Threatens a Global Recession." UNCTAD Policy Brief No. 24. Geneva: UNCTAD.

67 United Nations. 2011. *World Economic and Social Survey 2011: The Great Green Technological Transformation.* New York: UN-DESA.

2.6. Retrogression in human rights

Bringing Human Rights to Bear in Times of Crisis: A human rights analysis of government responses to the economic crisis brought civil society voices front and center to the e-discussion.[68] In particular, they reflected a worrisome reality that consisted of deepening unemployment, further disenfranchisement of the most vulnerable, the breakdown of social safety nets and protection systems along with the associated increase in unpaid work done mostly by women, increasing hunger, and limited policy space, especially for developing country governments to take the necessary actions to avoid and prevent economic and social breakdown (Caliari).

The UN Independent Expert on Human Rights and Extreme Poverty reminded us that the challenge of recovering from successive crises must not overshadow the concrete legal obligations that governments have to respect, protect and promote human rights including economic, social and cultural rights. Enshrined in a multitude of human rights treaties at regional and universal levels, these obligations are not expendable during times of economic hardship, but rather must guide the formulation of all government policies and initiatives, including fiscal and economic policies. Even in the context of severe resource constraints, whether caused by budgetary adjustment, recession or other factors, countries are legally required to devote the maximum available resources to ensure the progressive realization of all economic, social and cultural rights as expeditiously and effectively as possible (Sepulveda).

Any deliberately retrogressive measures that have a direct or indirect negative effect on the enjoyment of human rights by individuals will violate human rights standards. This includes unjustified reductions in expenditures that are essential to realizing a number of rights, including those that guarantee basic healthcare, ensure access to primary education, or make food and shelter available to all persons. Other measures that threaten the realization of these rights include cutting funding to social protection and social security systems, reducing minimum wages, large-scale hiring freezes and employment retrenchment, implementing regressive sales taxes and eliminating food subsidies. These and other austerity measures represent significant barriers to the enjoyment of human rights, particularly by people living in poverty who, despite being removed from the origins of the crises, continue to bear the brunt of their impacts. The human rights framework orients recovery discussions away from deficit cutting and debt eradication and toward reducing deprivations and eradicating obstacles to the realization of basic rights. Viewed in this perspective, recovery must start with the poorest and most vulnerable (Sepulveda).[69]

The human rights framework should be extended even beyond social security and adequate living standards to the nation, and to its right to have the freedom to adopt and implement macroeconomic policies of its choice to effectively respond to the needs and demands of its citizens. The ability of a country to implement an economic and fiscal policy regime of its choice is usually conceptualized in the economic literature in terms of ‘space’ and how organizations like the World Bank and IMF affect this space. But economic policy, when it involves the employment, social security and well-being of individuals, qualifies as part of the new human rights agenda, which the UN has pioneered (Amsden).

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68 ESCR-Net. 2011. *Bringing Human Rights to Bear in Times of Crisis: A Human Rights Analysis of Government Responses to the Economic Crisis*. New York: International Network for Economic, Social and Cultural Rights (ESCR-Net).

69 United Nations. 2009. Report of the Independent Expert on the question of human rights and extreme poverty, Magdalena Sepúlveda Carmona. Human Rights Council A/HRC/17/34. Geneva: United Nations.

The *Social Watch Report 2012*[70] points that policies to meet human rights are, at the same time, sound economic policies. Yet a gap is identified in terms of sustainability. Sustainable development was defined by the Earth Summit in 1992 as the set of policies that meet the needs of the present without compromising the ability of future generations to meet their needs. But in the current national and international governance structure, there is no defender of the rights of future generations. The report concludes that growing inequalities and unregulated finances are expropriating people everywhere from their fair share of the benefits of global prosperity. Our children will inherit the burden of deforestation, desertification, erosion of biodiversity and climate change. To reverse this trend, the promise of universal dignity brought by human rights has to be enforced, and the rights of future generations need to be recognized and properly defended (Bissio).

2.7. Ideology and the crisis

The crisis has brought into question the neoliberal financial economy that has been operating since the 1980s. In many ways, a mystification of market actors in the world economy, which is widespread in the media coverage of the crisis, makes it easier to ignore a deeper and more relevant issue, mainly that of the weak role of the state and of systemic failure. Contributors have pointed out the imminence of a paradigm shift.

In much of the media coverage, and even—perhaps particularly—among policy circles, a personification of markets took place. For example, the "financial markets wanted Greece, Spain, Portugal and the other currently victimized countries of Europe (Italy and Ireland) to commit" (Weisbrot). This abstraction from the real world of speculators and financial fraud ('the markets') is an essential part of the mystification of financial behavior. It facilitates the mythology that the dysfunctional financial system is not the work of people within institutions with socially irrational rules and norms, hiding and disguising those corporations that stand behind and work those markets to pursue their interests; rather this language makes it seem as if the self-interested pursuits of those corporations were the machine-like operations of some unalterable, fixed institution, a manifestation of the inexorable operation of the laws of nature that no government can change (Wolff, Weeks). However, markets are not independent actors; like all other institutions, they are human inventions filled with a mix of positive and negative aspects and open to change.

In this sense, it is not 'markets' that 'wanted' countries to commit themselves to fiscal cuts, but a specific collection of financial speculators that sought to coerce governments to take actions in the immediate economic interests of those speculators (Weeks). In Europe, the chief creditors of governments today are banks, insurance companies, large corporations, pension funds, some other governments (mostly non-European) and wealthy individuals. When politicians and media speak of the need for European governments to 'satisfy the markets,' what they mean is to satisfy those creditors. The chief influences among those creditors are the major banks that represent and/or advise all or most of the rest of them. The major European banks were—and are—the major recipients of the costly bailouts by European governments. Indeed, those bailouts sharply increased the indebtedness of European governments, which were mostly paid for through additional borrowing (Wolff).

This mystification of markets is parallel to a diminished role of the state. Many contributors to this discussion point out the systemic state failure that underpinned this crisis. According to public

[70] Social Watch. 2012. *Social Watch Report 2012: The Right to a Future.* Montevideo: Social Watch.

economics textbooks, in the past few decades, governments have failed to meet the regulatory role expected of them, which includes preventing, and if it occurs, correcting, market failure. States failed and continue to fail in large measure in performing this corrective, market-embedding role. Such pronounced failure facilitated and thus preceded market failure in the 2008 financial crisis (Kaul). In Europe, two democratically-elected governments stepped down in 2011 ‘to satisfy markets’ and were replaced by non-elected technocratic governments to deal with austerity and debt (Greece and Italy). In the earlier experience of Africa, this phenomenon was quickly ‘baptized’ state fragility. However, in the more developed world, this erosion of state responsibility and responsiveness was initially couched as “the necessary withdrawal of the state from development to allow the more natural agents of the market to adjust and drive change” (Lwanga-Ntale).

This erosion of state responsibility and responsiveness was caused by the dominant ideology since the 1980s (Dominelli). Neoliberal policy orthodoxy has demanded the destruction of the state as an agent of re-equilibration (balanced state/private sector relationships) and social protection, transforming it into a unit that stays out of private business as long as profits accrue, bailing out private business immediately when (rather than if) the private sector produces downturns (Raffer). The absence of appropriate controls and regulations allows private speculators with access to large financial resources to act through markets to undermine the actions of governments. The rules and constraints on financial markets are so weak or inappropriate that speculators can behave recklessly with confidence of never being held accountable (Weeks). What grows in the economy under this model is telling; increasingly it is the financial sector that grows, and money circulates within this sector without really producing a productive role in society (Kelles-Viitanen). The lack of awareness of people is puzzling, and the dismal state of education doubtless bears some responsibility for these views; economics has become like evolution, where what people think is well predicted by their political ideology; it is not fanciful to imagine school boards in Texas legislating against the teaching of Keynesian economics (Deaton).[71]

Still the main locus of legitimate governance remains the nation state. We cannot simultaneously pursue democracy, national self-determination and the ‘hyperglobalization’ of the last 30 years. We have to moderate our ambitions regarding economic globalization. Recognizing the centrality of nation-states is more likely to contribute to a healthy global economy than trying to eviscerate it (Rodrik).[72]

2.8. The need for equitable policies

The global economic crisis intensified existing problems and brought new challenges. Still as a transformation crisis, in the Polanyian sense, it presents an opportunity to reframe and rethink development and the path of the global economy. Contributors to this discussion agreed that a new progressive vision must be based on a massive strategy for equitable policies to reverse the growth of unsustainable insecurities and inequalities.

Although inequality has been on the radar of some of the major international organizations for quite some time, notably the United Nations Department of Economic and Social Affairs (UN-DESA), UNICEF, the United Nations Development Programme (UNDP) and the World Bank, the crisis led to its emergence as a major issue in the media and amongst the general public around the world. Inequality

[71] Deaton, A. 2010. “Letter from America—Dispatches from the Gloom: Or the Moon over Texas.” Royal Economic Society’s Newsletter, Issue No. 151.

[72] Rodrik, D. 2011. *The Globalization Paradox: Democracy and the Future of the World Economy*. New York: W. W. Norton & Company.

matters because high levels can inhibit growth, discourage the development of accountability among governments, and undermine civic and social life, ultimately leading to conflict, especially in multi-ethnic settings. Inequality reproduces itself across generations as a result of 'inequality traps' or persistent differences in power, wealth and status between socio-economic groups that are sustained over time by economic, political and socio-cultural mechanisms and institutions. Several studies have discussed the adverse impact of inequalities, be it in gender, income or health, on economic growth, or fragility and conflict (Sumner).

UNICEF's comprehensive look at income distribution in 141 countries showed that global asymmetries are staggering. Using different estimation models, "Global Inequality: Beyond the Bottom Billion" describes a world in which the top 20 percent of the population enjoys more than 70 percent of total income, contrasted by 2 paltry percentage points for those in the bottom quintile (as of 2007 under PPP-adjusted exchange rates). Using market exchange rates, the richest population quintile gets 83 percent of global income with just a single percentage point for those in the poorest quintile. While there is evidence of progress, it is too slow; it is estimated that it would take more than 800 years for the bottom billion to achieve 10 percent of global income under the current rate of change (Ortiz and Cummins).[73]

Yet trends in inequality vary among different countries and regions. The experience in many countries highlights the fact that social and redistributive policies can reduce inequalities. In the case of Latin America, historically the most unequal region in the world, inequality declined in 16 out of 21 countries in the new millennium (Ortiz and Cummins). Interestingly, in many countries the decline continued during the global economic crisis (Lustig).[74] Brazil, for example, has managed to grow, become more equal and reduce poverty over the last decade (Lawson). The changes in inequality seen in the recent years in Latin America can be attributed to external shocks and changes in domestic policies, particularly macroeconomic and social policies introduced in recent years, since the 'left-of-center wave' hit the region.

While the average regional decline in the Gini coefficient was two-to-three points, in countries ruled for most of the 2002-2007 period by left-of-center governments, the drop was more pronounced. An important factor in the reduction of inequality was the rise in public social expenditure in such countries, including targeted transfers to the poor, which reduced inequality by about one-tenth of the total (Cornia).[75] In Brazil, success did not come by accident, but by design, with strong government action to implement policies that redistribute wealth and help the poorest. Investment in progressive taxation and in social policies, like education for all and healthcare, are huge assets to its population and to the fight against inequality. Overall, it is estimated that Brazil lifted nearly 12 million people out of poverty between 1999 and 2009—that brings the proportion of those living in poverty from around one in nine to fewer than one in 25 (Lawson).[76] For the region as a whole, a continuation of fiscally prudent

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[73] Ortiz, I. and M. Cummins. 2011. "Global Inequality: Beyond the Bottom Billion – A Rapid Review of Income Distribution in 141 Countries." Social and Economic Policy Working Paper, UNICEF.

[74] Lopez-Calva, L. and N. Lustig. 2010. *Declining Inequality in Latin America: A Decade of Progress?* Washington, D.C. and New York: Brookings Institution Press and UNDP.

[75] Cornia, G.A. and B. Martorano. 2010. "Policies for Reducing Income Inequality: Latin America During the Last Decade." Social and Economic Policy Working Paper, UNICEF.

[76] Gower, R., C. Pearce and R. Kate. 2012. "Left Behind by the G20? How Inequality and Environmental Degradation Threaten to Exclude Poor People from the Benefits of Economic Growth." Oxfam Briefing Paper No. 157, Oxfam GB.

distributive and redistributive policies, which emerged in the 2000s, should preserve most of the income inequality gains recorded in recent years (Cornia).

The reduction of inequality in many other parts of the world can also be attributed to redistributive policies. At least 20 developing countries have reduced inequalities in recent years, including Thailand, Malaysia, and a few in Africa. The expansion of social protection, minimum wages and the purposeful use of public finance to reduce inequalities has started to make a difference (Jolly). What all these experiences show is that rising inequality is in no way a given, but a clear result of political choice (Lawson).

At the global level, several policies have been discussed as tools for reducing poverty and inequality. Included in the global social policy response to the crisis was a significant development called the 'Global Social Floor' or minimum social protection package.[77] This initiative supports countries to establish a minimum level of access to essential services along with income security for all. Grounded in the Universal Declaration of Human Rights, the Convention on the Rights of the Child and the ILO's campaign, 'Extending Social Security to All,' it focuses on two critical components: (i) *services*: ensuring the availability, continuity, geographical and financial access to essential services, such as water and sanitation, adequate nutrition, health and education, housing and other services; and (ii) *transfers*: realizing access to services and providing a minimum income and livelihood security through a set of essential social transfers, in cash and in kind throughout the life cycle (children, working life, older persons), paying particular attention to vulnerable groups (Cichon).[78]

The idea of a global social protection floor has gained momentum with the crisis. It is not only supported by all UN agencies, donors and non-governmental organizations (NGOs), but was also recommended by the G20. This is certainly a great advance. However, some commented that adequate social policies and social development responses to the crisis must go beyond the concept of the global social floor. In particular, what is needed is a more universal and inclusive approach to state-led development with which the welfare needs of the middle class and state builders are met along with those of the poor. If the professional and middle class of many developing countries are to be weaned away from a self-serving attachment to a global market in private welfare (overseas universities, private pensions, consumption of health service abroad), then developing countries need good universities, good hospital provision and adequate remuneration for the state builders. Otherwise, there will be no chance of rebuilding bonds of solidarity between the poor and the non-poor within countries, which are needed to (re)build universal and high quality social provision for all. This is the lesson of effective European welfare state building (Deacon, Gross).[79]

Furthermore, we should not lose sight of the fact that government social spending in most developing countries continues to be highly regressive, especially when subsidies for private health and education are included. This continues to be the case in most of Latin America. Despite the extension of cash transfer schemes and other interventions targeting poorer groups, there remain grave inequities in

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77 ILO and WHO. 2009. *The Social Protection Floor Initiative*. Geneva: ILO and WHO.

78 ILO and WHO. 2011. *Social Protection Floor for a Fair and Inclusive Globalization*. Report of the Advisory Group chaired by Michelle Bachelet. Geneva: ILO and WHO.

79 Deacon, B. 2009. "Shifting Social Policy Discourse: The Impact of the Crisis on Ideas about Social Protection and Global Social Governance." Paper presented at the UNRISD Conference, 'Social and Political Dimensions of the Global Crisis: Implications for Developing Countries,' November 12-13.

terms of contributory pension and health insurance schemes. Hopefully the current crisis can create openings for public debate and the reform of these inequitable programs (Lloyd-Sherlock).[80]

Another approach proposed is 'basic income,' which was put forth by a network of economists, the Basic Income Earth Network (BIEN), in 1986. A basic income is an income unconditionally granted to all persons on an individual basis, without means testing or work requirements. It is a form of minimum income guarantee that differs from those that now exist in various European countries. In particular, it is being paid to individuals rather than households, irrespective of any income from other sources, and without requiring the performance of any work or the willingness to accept a job. The inability to tackle unemployment with conventional means has led to the idea being taken seriously by a growing number of scholars and organizations. This further underscores how social and economic policy can no longer be conceived separately, and basic income is increasingly viewed as the only viable way of reconciling two of their respective central objectives: poverty relief and full employment (Standing).

Yet equity will not be achieved by social policies alone. While social policies will alleviate poverty and make a difference to many individuals, they cannot substitute development (Aroche). Most contributors agreed on the urgency to promote robust social and economic policies in parallel, in a complementary and mutually reinforcing manner. Further, the disconnect between economic policies and their social consequences can create a vicious circle of slow growth and poor social progress. As an alternative, the UN development agenda has been proposing the combination of social, economic and environmental policies (Ortiz and Cummins, Lee, Vos). Any equity approach would be quite incompatible with anything resembling the current pattern of globalized 'free' markets. In particular, it will require a rebalancing of the world economy that extends beyond current market manipulation, account deficits and surpluses, and managed flows of trade and capital to income-expenditure gaps and income distribution within countries (Shutt). The current series of crises therefore need to be instrumentalized to rethink the notion of growth, to reinsert employment and income distribution into discussions on productivity and value-added, and to revisit growth and recovery discussions bearing in mind human needs and rights (Koehler).

Equitable development policies are difficult to implement because they are deeply political. The creation of the welfare states in OECD countries have been and continue to be political projects, be it of nation building, restoration after civil wars (Scandinavia), after international wars (United Kingdom) or responses to threats to stability (of the left, as for Bismarck). They are deeply intertwined with democratic structures (e.g., the 'polder model' in the Netherlands, which is now challenged by populism). Recent progressive politics in the South are equally political projects: in Brazil, former President Lula managed to redistribute while reassuring investors; the Mahatma Gandhi National Rural Employment Guarantee Act (NREGA) in India was part of a Congress-led response to perceived failures of the conservative Bharatiya Janata Party; and, in China, its leaders' idea of harmonious society is as much a reaction to rising unrest as it is to growing inequalities (de Haan).

This is why initiatives like a broad coalition of NGOs, social movements, academics, UN agencies, governments and others are being established to advocate for these approaches, as well as the prioritization of equity and social justice in development agendas, are extremely important. To cite one example, a coalition started by Sir Richard Jolly and others after an 'Inequality and Social Justice

[80] Lloyd-Sherlock, P. 2009. "Social Policy and Inequality in Latin America: A Review of Recent Trends." *Social Policy and Administration* 43(4): 347-363.

Consultation' in 2011 calls on governments and development agencies to place the reduction of inequality at the heart of their recovery and development agendas (Jolly).[81]

The extreme inequality in the distribution of the world's income should make us question the current development model (development for whom?), which has accrued mostly to the wealthiest. Despite the political and difficult nature of equitable policies, addressing and adopting them is an essential task. The policy choice might be different for different countries, but some of the key elements appear to be employment-generating macroeconomic policies, progressive taxes and redistributive transfers, universal public services, particularly education and health, and social pensions (Van der Hoeven, Deacon, Justino, Beales, Ortiz and Cummins). An inclusive development agenda promoting jobs growth and universal social policies was a key ingredient to legitimizing governments and nation-building in the past. This differs radically from today's standard development formula that is based on growth that benefits the highest income quintile with a few targeted safety nets for the poorest.

Against a backdrop of greater unrest from the 99 percent, whether in Lagos or London, this is an issue that will be harder and harder for leaders to ignore (Lawson). The ILO created a social unrest index, highlighting global levels of discontent related to perceived economic inequality. Marking an uptick in popular anger in advanced economies, such as those of the EU, the *World of Work Report 2011* warns of a significant aggravation of social unrest in over 45 of the 118 countries surveyed. As the recovery derails, social discontent is becoming more widespread; public dissatisfaction is also simmering in the Middle East and North Africa, and, albeit to a much lesser extent, in Asia (Torres). Any economic model that does not properly address inequality will eventually face a crisis of legitimacy. And unless the relative economic roles of the market and the state are rebalanced, the protests of 2011 will become more severe, with social and political instability eventually harming long-term economic growth and welfare (Roubini).

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[81] IDS. 2011. "Summary: Inequality and Social Justice Roundtable Consultation." Sussex: Institute of Development Studies (IDS).

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