

How global food and energy, and financial and economic crises changed approaches to eradicate poverty and generate employment

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# Background

- Disappointing outcomes of the dominant policy paradigm since the 1980s
- UN sceptic about the dominant paradigm and concerned about its social and human cost
- UNICEF's Adjustment with a human face
- UNDP's Human development report
- World Economic and Social Survey
- Report on World Social Situation

# UN-CEB/HLCP crisis response

- 9 Initiatives:
  - Social protection floor
  - Humanitarian, security and social stability
  - Technology and innovation
  - Monitoring and analysis
  - Additional financing for the most vulnerable
  - Food security
  - Trade
  - Green Economy Initiative (GEI)
  - Global jobs pact

# UN's macroeconomic policy advice

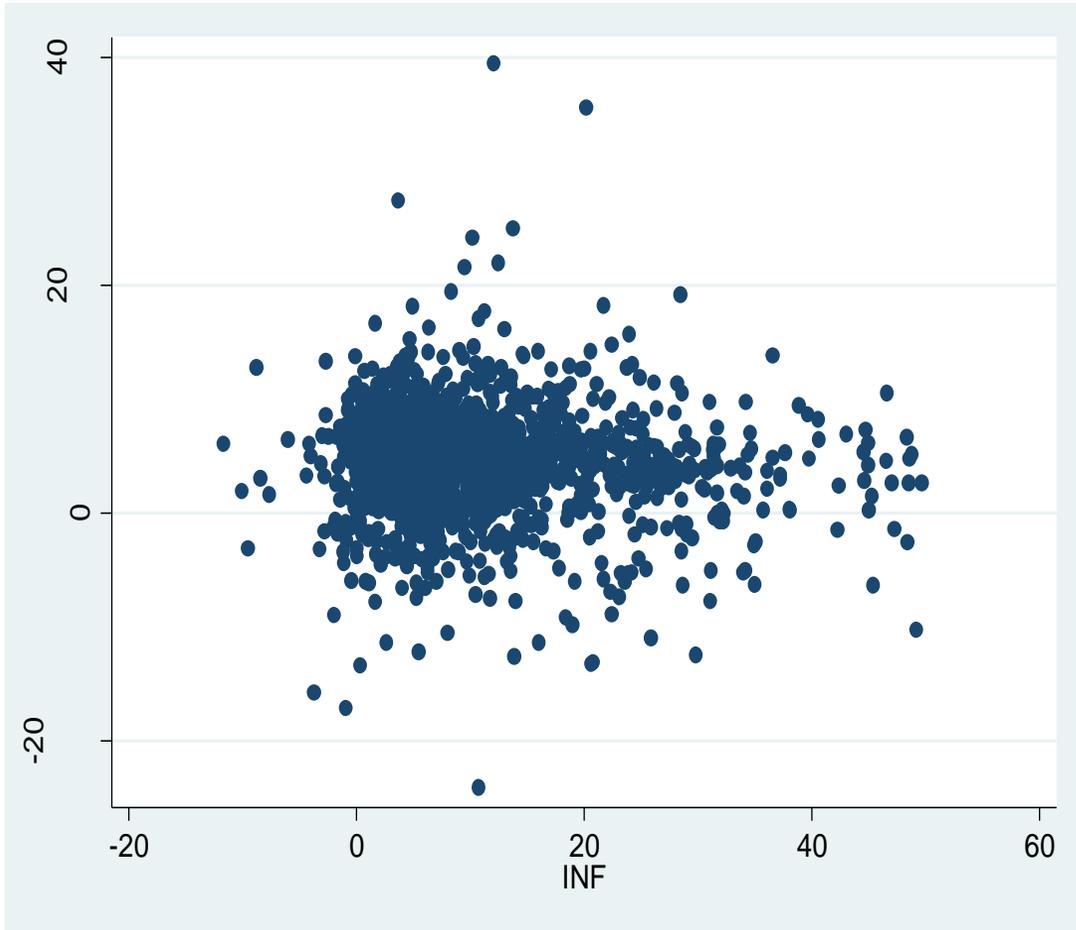
- **UN's credibility** – forewarning the crisis & cautioning about premature fiscal consolidation
- **Other international organizations' failure** to see the underlying risks
- Underscored the importance of **alternative macroeconomic policy advice**
- Member States with a 'second opinion' on macro-economic policies was unanimously approved at the HLCP meeting on the financial and economic crisis in March 2010
- The IMF, in particular, welcomed the idea of providing the UN's macroeconomic advice initiative.

# Forward-looking macroeconomic policies

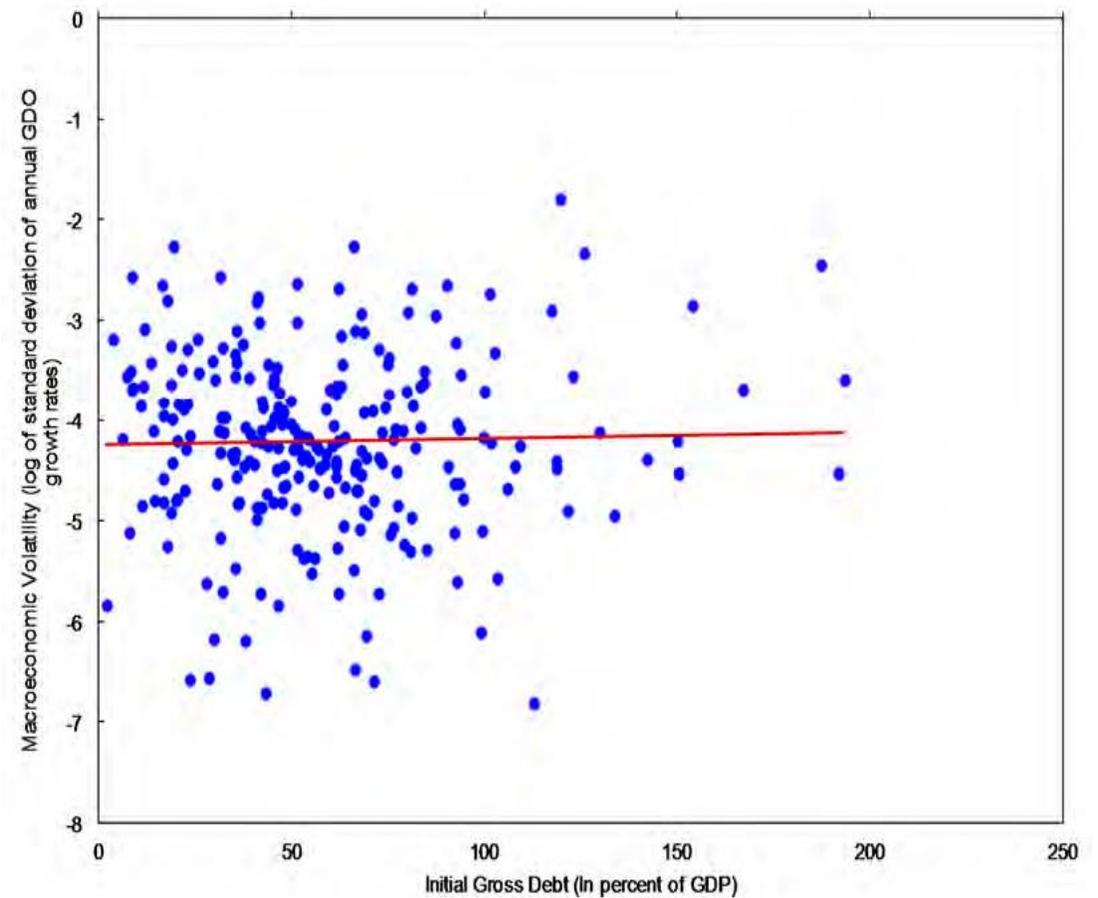
- Rio+20 called for “adopting **forward-looking macroeconomic policies** that promote sustainable development and lead to sustained, inclusive and equitable economic growth...” (para 150).
- S-G Report, “Keeping the Promise” 2010 MDG Summit:  
“Macroeconomic policies **should not focus narrowly on debt stabilization and curbing inflation**, but should ultimately be **supportive of growth of real output and employment**. It is often necessary, therefore, to relax unnecessarily stringent fiscal and monetary restrictions and to use **countercyclical** fiscal and monetary policies to boost employment and incomes and to minimize the impact of external and other shocks on poverty.” (para 50)

# Debunking myths – rethinking macroeconomic policies

Inflation-growth (40 developing countries; 1960-2010)



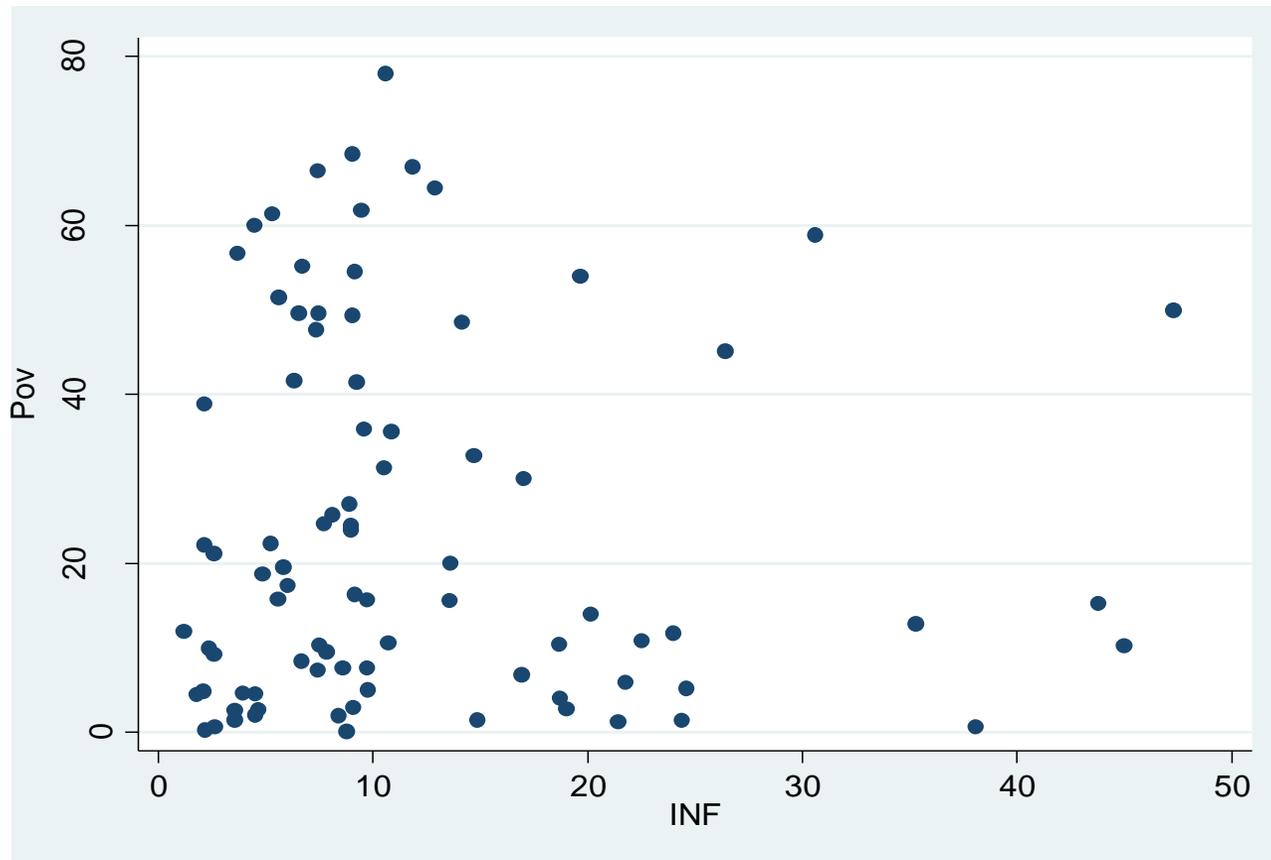
Debt-growth



NO DISCERNIBLE RELATIONSHIP AT THE MODERATE LEVELS – INFLUENCED BY EXTREME VALUES

# Debunking myth – contd.

Inflation poverty (40 developing countries, 1960-2010)



- No discernible relationship at moderate level (upto 15%)
- Depends on two opposing impacts of inflation on wage and employment: Lower real wage; but higher employment.
- Also depends on impact of inflation on debt – poor are net debtors; inflation lowers real value of debt
- Extreme values of inflation affect poverty adversely

# Fiscal Policy

- Attention on the **likely growth effects** of the level, composition and efficiency of public spending and taxation.
- Counter-cyclical with **strong automatic stabilizers** – e.g. social protection measures – supported by active labour market programmes and public provisioning of basic services, e.g. healthcare, education, low-cost housing, transport, etc.
- Public **infrastructure and social investment**
- **Progressive taxation measures**

# Monetary Policy

- “each member shall ... endeavor to direct its economic and financial policies toward the objective of fostering orderly economic growth with **reasonable price stability**, with due regard to its circumstances” (IMF, Article IV.1.i).
- **Discretionary credit policies** to support SMEs and employment intensive activities, including agriculture
- **Avoid** blanket interest rate tightening
- **Guard against** speculative activities

# Supportive policies

- Managed exchange rates – avoid real appreciation
- Active macro-prudential measures to manage capital flows
- Financial inclusion
- Wages/incomes policies – social wage – public provisioning of basic services

# Conclusion – revert to UN’s 1<sup>st</sup> Expert Report

- UN’s first pioneering Expert Group Report – *National and International Measures for Full Employment* (1949) – that governments should
  - “adopt and announce a full employment target” in conformity with the UN Charter and the Universal Declaration of Human Rights (para 141.i);
  - “announce the nature of the policies...in order to maintain the stability of the price level and to combat inflationary tendencies in a manner consistent with the maintenance of ...full-employment target” (para 141.iv).
- Primacy of **full-employment target – human rights perspective**; country specific circumstances; pre-announcement of policies.

Thank-you