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Risk of major labour market downturn looms

Recovery of labour markets could be undermined by multiple, overlapping economic and political crises that are negatively impacting jobs and incomes worldwide, says the International Labour Organization.

- **Labour market recovery threatened by Ukraine war, multiple crises** – *p2*

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CONTENTS

CURRENT REPORTS

OPINION

THIRD WORLD ECONOMICS
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Labour market recovery threatened by Ukraine war, multiple crises

The outbreak of several interlinked crises has raised the risk of a significant global labour market downturn that would adversely affect employment creation and job quality, according to the UN labour body.

by Kanaga Raja

GENEVA: While the impact of the COVID-19 pandemic has waned in most countries, multiple and overlapping economic and political crises are threatening labour market recovery around the world, the International Labour Organization (ILO) has said.

In its latest *Monitor on the World of Work* report, released on 31 October, the ILO said these crises are likely to further increase labour market inequalities due to the disproportionate impact on certain groups of workers and firms, while contributing to a growing divergence between developed and developing economies.

The latter had already been recovering more slowly from the COVID-19 pandemic, and are now facing less policy space to protect hard-hit workers and enterprises during the most recent crises, it added.

The encouraging recovery in hours worked seen at the beginning of 2022 has not continued, although there continue to be significant differences between regions and income groups, said the ILO.

"Estimates indicate that in the third quarter of 2022, hours worked were 1.5% below the level of the fourth quarter of 2019 (the pre-crisis benchmark), equivalent to a deficit of 40 million full-time jobs."

The outlook for the labour market is currently highly uncertain, with growing downside risks, including the impacts of high inflation, tightening monetary policy, increasing debt burdens and declining consumer confidence, the ILO said.

On current trends, global employment growth will deteriorate significantly in the fourth quarter of 2022, it added.

"Tackling this deeply worrying global employment situation, and preventing a significant global labour market downturn, will require comprehensive, integrated and balanced policies, both nationally and globally," said ILO Director-General Gilbert F. Houngbo.

"We need the implementation of a broad set of policy tools, including interventions in the prices of public goods; the re-channelling of windfall profits; strengthening income security through social protection; increasing income support; and targeted measures to assist the most vulnerable people and enterprises," he added.

"We need a strong commitment to initiatives such as the UN Global Accelerator on Jobs and Social Protection, which would help countries create 400 million jobs and extend social protection to the four billion people who are currently unprotected," said Houngbo.

"And a rapid end to the conflict in Ukraine, as demanded in the resolutions of the ILO Governing Body, would further contribute to improving the global employment situation," he added.

Multiple and overlapping crises

According to the ILO, just over one year ago, 94% of workers were residing in countries with workplace closures to control the spread of the COVID-19 pandemic. At present, almost all countries, with the notable exception of China, have lifted such closures and other restrictions.

"While this gradual lifting of controls has enabled economic activity to return over the course of 2021 and early 2022, there have been significant differences in labour market trends between and within countries," said the report.

In most advanced economies, employment has reached or surpassed pre-crisis levels, while many employers are struggling with labour shortages. In contrast, deficits are evident in low- and middle-income countries, reflecting the more limited policy response and ability to protect the economy over the long crisis period.

On top of this unequal and incomplete recovery from the COVID-19 crisis, said the report, a set of multiple and overlapping crises, compounded by the conflict in Ukraine and subsequent negative spillover effects, have materialized over 2022 which are deeply impacting the world of work in terms of their effect on:

(1) inflation (especially food and energy), real wages and inequality;
(2) shrinking policy space and higher debt burdens in developing countries; and
(3) slowdown in economic growth in 2022 and 2023 (at 3.2% and 2.7%, respectively) and aggregate demand, which will reduce the demand for workers.

Inflation, which was already increasing in 2021 due to COVID-19-related supply-side disruptions and increasing demand as lockdown measures were lifted, accelerated due to the Ukraine war. In its October 2022 report, the International Monetary Fund (IMF) revised upwards its forecast for global headline inflation, which is expected to peak at 9.5% in the third quarter of 2022 before falling to 6.5% in 2023. By July 2022, the core inflation rate had surpassed 6.7% in more than half of the countries.

The ILO report said that high and persistent inflation is creating enormous pressures on labour income and workers are struggling to maintain their purchasing power, raising the risk of increased poverty and inequality.

In response to inflation, central banks have quickly and significantly shifted their monetary policy stance by raising their policy rates to rein in demand and price increases, even if supply-side factors continue to play a key role in keeping inflationary pressure high, said the report. Monetary policy tightening is making access to finance more difficult for households and businesses, while creating negative spillover effects in developing countries.

In the wake of higher spending and lower tax revenues during the pandemic, many countries now have much higher debt ratios than prior to the crisis, which are becoming even more challenging to service as financial conditions tighten.

The gross public debt-to-GDP ratio increased significantly from 2019 to 2020 in both advanced and developing countries (especially emerging economies). In particular, the proportion of low-income countries in debt distress or at high risk of debt distress reached 56% in 2022, up from 49% in 2019.

"The overlapping crises are directly affecting enterprises, particularly small firms which are most vulnerable to shocks," said the report.

Higher energy and other input prices increase business costs, which are difficult to pass on to customers already facing diminished purchasing power. Higher interest rates decrease business investment and increase business debt burdens, further depressing investment demand. Exchange rate instability also adds to these costs in countries facing currency depreciation, as the price of imported goods rises.

"These conditions create high uncertainty, which is further dampening business investment and impacting on job creation," said the ILO.

The report said uncoordinated monetary and fiscal tightening will further depress global economic growth and trade, raising the spectre of financial and exchange rate instability, especially among highly indebted countries, firms and households. At present, it noted, the risk of a recession in 2023 has increased, as reflected by the downward revisions to GDP projections over 2022.

"Given these progressively difficult economic and policy environments, the global outlook for labour markets is increasingly negative in terms of both employment creation and job quality, which also has important implications for inequality," said the report.

Uneven recovery

Global hours worked recovered strongly in the beginning of 2022 as pandemic-era restrictions were lifted in most countries, said the report.

During the first quarter of 2022, global hours worked (adjusted for population aged 15-64) were 1% below the level of the fourth quarter of 2019 (the pre-crisis benchmark), equivalent to a deficit of 30 million full-time jobs. The level of hours worked in this quarter was substantially higher than suggested in the previous edition of the *ILO Monitor*.

However, the report said, "this solid recovery was reversed in the second and third quarters, when the gap in hours worked grew to 1.8% and 1.4%, respectively (equivalent to a deficit of 52 and 40 million full-time jobs)."

The ILO said the deterioration has been largely driven by two main developments: (1) the re-introduction of public health restrictions and the resulting disruptions to the economy and the labour market in China; and (2) the conflict in Ukraine and the related energy and food price shocks, which increased inflationary pressures while dampening labour market recovery around the globe.

The Americas stands out as the region registering the best performance thus far in 2022, with hours worked having exceeded the pre-crisis level since the second quarter of 2022. In contrast, hours worked in all other regions remain well below the pre-crisis level, said the ILO report.

Despite Africa and the Arab States showing an upward trend during 2022, they still present a sizeable gap of 2% in hours worked compared with the pre-crisis level.

Asia and the Pacific registered a decline of 1.2 percentage points in the second quarter of this year and, thereafter, saw a moderate improvement of 0.6 percentage points, as activity in China began to recover after the country partially lifted lockdowns.

In contrast, Europe and Central Asia have registered two consecutive quarters of declines, resulting in a cumulative loss of 1 percentage point. This downward trend was caused by a deterioration of hours worked in Eastern Europe, driven by the war in Ukraine.

The ILO said that low-income and lower-middle-income countries have seen their hours worked stagnate in 2022, with a gap in the range of 2-3%, while high-income and upper-middle-income countries have seen hours worked nearly return to the pre-pandemic level, although the rate of improvement has decelerated since the Russian Federation's aggression against Ukraine.

It said the persisting gaps in hours worked between high-income and middle-income countries were also reflected in employment numbers.

In advanced economies, employment-to-population ratios returned to or exceeded the pre-crisis level by 2022 Q2 in more than 75% of countries with available data. Similar to the trends in hours worked, the employment recovery in high-income countries was strongest until 2022 Q1 before flatlining in the following quarter.

In contrast, the majority of middle-income countries in the sample continue to have an employment deficit relative to the pre-crisis situation, with an average gap of 2% in 2022 Q2 relative to the same quarter in 2019.

The ILO also said that informal employment has been growing at a rapid pace over 2021-22 after the heavy losses registered in 2020.

New ILO estimates of globally representative trends in informal employment show that between 2005 and 2019, formal employment grew faster than informal employment, leading to a gradual reduction in the informal employment rate by 5 percentage points. The disproportionate impact of the pandemic on informal jobs resulted in a further reduction in the share of informal employment. However, this trend reversed dramatically in 2021, and informal job growth fully recovered from the losses experienced in 2020, whereas formal employment did not.

Moreover, in 2022, informal jobs are estimated to be growing at the same pace as formal employment, jeopardizing the slow but consistent trend towards formalization observed over the past 15 years. This global trend is driven by low- and lower-middle-income countries.

Labour market facing multiple risks

The outlook for labour markets is currently uncertain, with growing downside risks on many fronts, the ILO said.

"Inflation is expected to remain high, which continues to hurt workers' purchasing power and businesses, especially small enterprises. Forthcoming ILO estimates show that rising inflation is causing a decline in real wages in many countries."

This cost-of-living crisis comes on top of significant losses in the total wage bill for workers and their families during the COVID-19 crisis, which in many countries had the greatest impact on low-income groups.

Along with tightening monetary policies and increasing inflation, consumer confidence has been declining for some time, said the ILO. Since the onset of the Ukraine war, confidence has collapsed in many countries, reaching lows not seen since the depth of the global financial crisis of 2008-09.

"In addition, it is well established that contractionary monetary policy leads to sizeable effects on economic and work activities. Furthermore, economic studies have shown that declines in consumer confidence have negative impacts on hours worked. All these factors are expected to lead to a worsening of labour market conditions – albeit with some lag," said the report.

There are already signs of a turning point, particularly in job vacancies. The unprecedented growth in job vacancies during the 2021 recovery led to a significant increase in labour market tightness in advanced economies. Labour supply factors, such as reduced participation due to health effects, shifts in worker preferences and migration trends, strongly contributed to increasing tightness, a trend which continued until spring 2022.

"Since then, however, the labour market has cooled considerably, with sharp declines in vacancy growth. After these shifts in vacancy trends, the pace of unemployment reduction has slowed down markedly."

If current trends persist, vacancies will decline while unemployment will increase in the fourth quarter of 2022, the ILO cautioned.

Policy tools

Careful policy choices are needed to navigate the multiple crises that are having far-reaching impacts on the world of work, said the ILO report.

It said that while the recovery in the aftermath of the pandemic has been uneven and incomplete in many countries, labour markets are now facing new challenges stemming from multiple and overlapping crises. The multiplication of crises raises the risk of another significant global labour market downturn.

"Facing more restrictive fiscal space after a period of higher spending and reduced revenue during the COVID-19 pandemic, along with high levels of debt distress in developing countries, policy choices need to be made even more carefully with the goal of preventing such a downturn and avoiding a further deepening of inequality," it said.

It pointed out that excessive policy tightening is causing undue damage to jobs and income in both advanced and developing countries. The current cycle of policy tightening is already impacting labour markets, with two particularly significant characteristics.

First, in many advanced countries, labour markets are showing early signs of cooling down, with declining job openings. "At the same time, there is no evidence of wage-price spiral effects; on the contrary, with labour markets cooling and inflation rates high, real wage growth will face significant pressure."

Second, monetary tightening in advanced economies is having damaging spillover effects in developing countries. Labour markets there have yet to recover from the pandemic in terms of both quality jobs and incomes. Given that the slower recovery in these countries was mainly driven by informal jobs, labour income in many developing economies remains below the pre-pandemic level and is now being further threatened by soaring inflation.

The ILO said that the set of policy tools to combat the impact of the multiple crises on the labour market needs to be widened through social dialogue. Policy options that could be used in the current context include:

- Implementing interventions to set prices for public goods, based on social dialogue.
- Re-channelling windfall profits (particularly in the energy sector) to employment and income support.
- Strengthening income security through social protection, including reviewing benefits, such as pensions, to keep pace with the cost of living.
- Increasing income support to maintain the purchasing power of labour income, which will prevent more people from falling into poverty and food insecurity, such as through wage adjustments (including increasing minimum wages and making use of collective bargaining).
- Targeting support to the most vulnerable people and enterprises to combat the effects on specific groups and sectors, which include measures to promote job creation and social protection for those most affected, along with skills development interventions, active labour market policies (ALMPs) to facilitate their transitions and support to enterprises. *(SUNS9680)*

TRIPS extension on diagnostics and therapeutics hangs by a thread

Whether the WTO will agree to lower intellectual property barriers to production of COVID-19 tests and treatments remains up in the air ahead of the mid-December deadline to reach a decision.

by D. Ravi Kanth

GENEVA: The prospects for extending the World Trade Organization's Ministerial Decision on the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) to cover the production and supply of COVID-19 diagnostics and therapeutics by the deadline of 17 December seem to hang by a thread.

Despite repeated calls and frenetic efforts by a large majority of developing and least-developed countries to secure the extension, several major industrialized countries seem to be adopting "diversionary" tactics by raising extraneous issues and questions, said people familiar with the development.

Paragraph 8 of the Ministerial Decision, which was adopted by the WTO's 12th Ministerial Conference (MC12) on 17 June and currently applies only to COVID-19 vaccines, states: "No later than six months from the date of this Decision, Members will decide on its extension to cover the production and supply of COVID-19 diagnostics and therapeutics."

At an informal meeting of the WTO's TRIPS Council on 2 November, many developing and least-developed countries, including South Africa, India, Tanzania on behalf of the African Group, Kenya on behalf of the African, Caribbean and Pacific (ACP) Group, Indonesia and Pakistan, upped the ante for fulfilling the mandated TRIPS decision.

These countries made statements based on what they had said earlier at the previous TRIPS Council meeting on 12-13 October. Subsequently, the WTO secretariat issued, in a restricted document, all the statements made at that meeting.

Inequitable situation

According to the document, seen by the *South-North Development Monitor* (*SUNS*), South Africa, which has been at the forefront of the fight for a TRIPS waiver on COVID-19 medical products, offered some reflections at the 12-13 October meeting on some of the most recent questions raised by the developed countries such as Japan and Switzerland. It has apparently likened the questions raised on extending the TRIPS decision to cover COVID-19 diagnostics and therapeutics to what the developed countries had done previously in response to the TRIPS waiver proposal by 65 countries put forward since October 2020.

South Africa noted that "currently, many therapeutics and diagnostics which are widely available in high-income countries (HICs) are not so in low- and middle-income countries (LMICs)".

According to South Africa, developing countries are kept waiting for donations or for companies' decisions on whether: (1) to enter into a voluntary licence and attach conditionalities such as geographic limitations to the licence; (2) to donate some products to countries or populations of the company's choice; or (3) to lower the price to a level and for countries of the company's choice.

"Clearly this is not a sound public health policy to leave LMICs subject to the largess of companies' decisions," South Africa said.

South Africa pointed to two important issues related to access to COVID-19 therapeutics and diagnostics: "(1) Supply in terms of the quantity of the product available for LMICs to procure; and (2) The price. Like vaccines, pharmaceutical companies prefer to supply the high-income market where they can sell for higher prices and maximize their profit than in LMICs where profit will be less."

"That is why access to therapeutics and diagnostics is repeating the inequitable situation seen in vaccines. For example, as of April 2022, 66% of Merck's antiviral medicine (molnupiravir) was sold in high-income countries," South Africa said.

South Africa said that "there are many therapeutics for which patent rights do not exist, or which are royalty-free." But "there are not many royalty-free therapeutics for COVID-19 and, as we pointed out before, treatments that are suitable for patients differ and are based on a number of factors." Consequently, "patent barriers affect accessibility and affordability".

For example, tocilizumab, which South Africa noted is "a biological medicine manufactured by a Swiss-headquartered company", is strongly recommended for treating patients with severe and critical COVID-19. It is "in fact a repurposed drug, having been used for inter alia rheumatoid arthritis since it was first marketed. Its main patents expired in 2017."

"However, subsequent patent applications for other features have been filed leading to the extension of tocilizumab's patent thicket up until 2028 for some jurisdictions in the world," South Africa said, adding that this process is known as "evergreening".

In South Africa itself, for example, despite an expert panel finding that tocilizumab reduced deaths, the recommendation was for the medicine to not be used because it was "not affordable at the current offered price".

The life-saving therapy is largely out of reach for African populations at a cost of around $2,000 per patient, whereas the cost of manufacturing tocilizumab is estimated to be as low as $40 per 400 mg dose.

South Africa raised the need for "comprehensive information about existing collaborations and in particular voluntary licences". It asked whether there are "countries that would have been interested in applying for a sub-licence for molnupiravir and Paxlovid but were not able to do so because they fall outside the scope of the MPP [Medicines Patent Pool] licence agreements".

It sought to know "which companies from those countries, that are eligible for applying for a sub-licence, have been rejected in WHO's pre-qualification phase? Have applications been turned down for other reasons? And in which cases has it been possible for low- and middle-income countries to conclude voluntary licensing agreements?"

South Africa argued that the extension of the MC12 decision would "streamline the process for compulsory licensing to allow excluded countries to access life-saving treatments at affordable prices."

It expressed concern over the lack of transparency over "bilateral voluntary licences between producing companies and generic companies" and conditionalities attached to supplies and geographic allocation.

"Other medicines, especially monoclonal antibodies ... such as baricitinib, are not available due to exclusive rights held by the originator," South Africa said, pointing out that "the originator holds patents in more than 50 developing countries, e.g. Latin America, Asia, and Africa, which are hit hard by the pandemic."

South Africa said that "many of these details that we provided today are available in our written submissions IP/C/W/670-674", adding that delegations like Switzerland must consult these submissions.

Essential access

Also at the 12-13 October TRIPS Council meeting, Kenya, speaking on behalf of the ACP Group, emphasized that "COVID-19 remains a health threat to populations, and that the use of vaccines is limited in scope in the fight against this disease." Access to therapeutics and diagnostics "is therefore essential to sustainably address this pandemic", said Kenya, which noted that "the rate of vaccination in many of our countries is still very low compared to developed countries."

Kenya said that WTO members "agreed to reach a decision no later than six months after the Ministerial Conference", and "in order to achieve this, it is essential to start serious textual discussions on the possible contours and content of such a decision."

It said that "to refrain to engage in textual discussions is to choose inevitably to reach a negative decision and to close doors and windows to a positive consensus."

Speaking on behalf of the Group of Least-Developed Countries (LDCs), Bangladesh said it "welcomes the temporary MC12 TRIPS waiver Decision to support the production and affordable and timely supply of COVID-19 vaccines with an opportunity to extend the decision to therapeutics and diagnostics."

It said that while "this is already a delayed decision after the outbreak of the pandemic," the "MC12 Decision will help scale up COVID-19 vaccine production and make those vaccines affordable for all of us."

"Without further delay, we must extend the Decision to therapeutics and diagnostics as desired by the Ministers," Bangladesh said.

It urged "Members to engage constructively in order to fulfil the mandate of the MC12 Decision on the TRIPS Agreement regarding the inclusion of therapeutics and diagnostics."

Indonesia said that "unlike the COVID-19 waves we experienced in 2020 and 2021, where a single variant, such as Delta, rapidly outpaced all others and spread across the world, virologists are currently tracking the growth of multiple immune-evading sub-variants for these coming months."

It said that "therapeutics and diagnostics are inseparable parts of the countermeasures devised in the World Health Organization's four-pillar strategy, and have been proven to be effective in the prevention, containment, and treatment of COVID-19."

Indonesia cautioned that "no one is safe until everyone is safe and that means everyone needs access to, and the availability to use, if needed, the medical tools to stay safe at affordable prices, which includes vaccines, tests, and treatments. Indonesia, as always, stands ready to engage constructively on this issue."

Sri Lanka said that "the world is now experiencing an evolution of the COVID-19 pandemic", and that "antibodies triggered by vaccination are less effective in responding to new variants of the pandemic, and even vaccinated people with boosters are vulnerable to multiple infections of new variants."

The crucial role of therapeutics and diagnostics in controlling COVID-19 is undisputed, Sri Lanka said, arguing that "diagnostics are critical for effective use of therapeutics."

Sri Lanka said that "intellectual property monopolies, especially relating to patents, remain a major barrier to scaling up production and to facilitating equitable access."

"Therefore, extending the scope of the TRIPS Decision beyond vaccines to cover therapeutics and diagnostics could secure the availability of compulsory licences to override the patent barriers to production and export, as equitable and affordable access to therapeutics and diagnostics still remains a massive challenge for developing countries and LDCs," it added.

"In this backdrop, the Sri Lankan delegation would like to re-emphasize that the TRIPS Decision needs to be extended to cover the production and supply of COVID-19 diagnostics and therapeutics."

Egypt, in its intervention, supported the statements made by South Africa, Sri Lanka and Indonesia. It said it is not prepared to miss the 17 December deadline.

India, which along with South Africa submitted the first proposal on the TRIPS waiver in October 2020, said that "while the MC12 Decision is far from being a perfect one, as it comes too late and offers too little, nonetheless, we regard it as a step in the right direction."

"All Members agree that to combat the COVID-19 virus and its ever-mutating strains, a comprehensive strategy must be adopted," India said. "Apart from preventive measures, test-and-treat strategies continue to be relevant and important to save lives, as people continue to contract the virus and fall sick and also die in some cases despite several doses of vaccinations."

India said "testing is not only critical to detect cases, it is essential to identify new variants to start building vaccines and therapeutics that can prevent or treat infection and to better understand the scale of infection allowing for expeditious action to be taken to break the chain of transmission and contain the spread further."

Citing the World Health Organization's recent recommendation that "local production related to therapeutics and diagnostics should be encouraged and supported as increased production capacity can contribute to global equitable access to therapeutics", India urged members to "consider extending the Decision to therapeutics and diagnostics."

India said "it is unfortunate that questions posed by some non-proponents seeking evidence to prove lack of access to therapeutics and diagnostics appear to be insincere and insensitive given that over

6.5 million lives have been lost amidst the acute shortages of masks, ventilators, PPE kits, therapeutics, vaccines, diagnostics etc."

India hoped that "all Members work in solidarity and in good faith towards delivering on this Ministerial mandate before 17 December 2022."

Meanwhile, China, which supports extension to cover diagnostics and therapeutics, appears to have indicated during consultations that, with regard to therapeutics, it may not accept footnote 1 in the TRIPS decision that barred Beijing from availing of the decision on vaccines, said a source who asked not to be identified.

Footnote 1 of the TRIPS decision states: "For the purpose of this Decision, all developing country Members are eligible Members. Developing country Members with existing capacity to manufacture COVID-19 vaccines are encouraged to make a binding commitment not to avail themselves of this Decision. Such binding commitments include statements made by eligible Members to the General Council, such as those made at the General Council meeting on 10 May 2022, and will be recorded by the Council for TRIPS and will be compiled and published publicly on the WTO website."

Questions raised

Significantly, at the informal TRIPS Council meeting on 2 November, the United States apparently remained silent on the issue of the extension, said a source who asked not to be quoted.

The European Union said it remained confident that a decision on therapeutics and diagnostics could be achieved through constructive dialogue. The EU said that it would "constructively" engage in the discussions.

In a joint statement, Switzerland and Mexico raised several questions about the need to extend the TRIPS decision to cover diagnostics and therapeutics:

1. Against the background of the demonstrated availability of therapeutics like molnupiravir and Paxlovid, especially with regard to the idle production capacity, what would be the added benefit of an extension of the MC12 TRIPS decision?
2. Given that already 138 bilateral or MPP-based voluntary licensing agreements have been signed, many with LMICs, no systemic hurdles seem to exist that prevent other companies from also signing voluntary licensing agreements. Why do proponents of an extension consider it necessary to facilitate the issuing of compulsory licences that do not contain technology transfers, training and other benefits that come with most voluntary licence agreements?
3. Given that already a large number of producers for therapeutics and their generic versions exist and that these producers face declining demand for their products, why do proponents consider it necessary to facilitate the issuing of compulsory licences so that additional producers can produce for an already saturated and shrinking market?
4. As the market for therapeutics is already saturated and served by many companies including producers for generic versions of therapeutics, the profit margins are small. How likely do the proponents consider it that a company bestowed with a compulsory licence would be willing to make large up-front investments just to have very modest returns on investment and a break-even point in the very distant future?
5. For many months, we have discussed a potential waiver and whether such a waiver is necessary to improve access to COVID-19 vaccines. Yet, since the adoption of the MC12 decision, no country has made use of the possibilities provided for by the decision to grant a compulsory licence for the export of COVID-19 vaccines. Against this background and taking into consideration that supply of therapeutics exceeds their demand, how do the proponents of an extension justify the need for such an extension?

The chair of the TRIPS Council, Ambassador Lansana Gberie of Sierra Leone, observed in his statement that "the absence of concrete text-based proposals for a TRIPS Council decision on this matter at this stage is very concerning", and urged "delegations to explore all options to make progress as the 17 December deadline to find a solution is fast approaching."

Gberie urged members to bring forward written proposals to be the basis for future discussion and negotiations.

The chair informed members that the TRIPS Council will meet informally again on 22 November. The chair has also scheduled meetings for 6 December, with the possibility of calling members for another meeting on 15 December, two days before the deadline expires.

In short, time is running out for complying with the MC12 TRIPS decision. Sadly, the WTO Director-General Ngozi Okonjo-Iweala seems to be preoccupied with non-mandated issues such as trade and climate change rather than putting all her energies into securing an extension to cover diagnostics and therapeutics by the 17 December deadline, said a trade envoy who asked not to be quoted. *(SUNS9685)*

Global profit-shifting soars, study finds

Companies worldwide are funnelling more and more of their profits into tax havens, reveals new research, depriving countries of much-needed tax revenues.

by Julia Conley

A first-of-its-kind analysis released on 3 November shows how the amount of corporate profits being diverted to tax havens has skyrocketed in recent years, with nearly $1 trillion in global profits being stored in places where corporate giants don't have to pay taxes.

The United Nations University World Institute for Development Economics Research (UNU-WIDER) studied corporate profits and profit-shifting between 1975 and 2019 (https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp2022-121-global-profit-shifting-1975-2019.pdf), finding that the diversion of massive profits is a "relatively new phenomenon."

In the 1970s, about 2% of profits made by corporations were shifted to tax havens such as Bahamas, Anguilla and Panama. By 2019, the amount had grown to 40%, with the use of corporate tax havens rising sharply in the past decade.

"Profit-shifting has increased relentlessly," tweeted Ludvig Wier, a co-author of the study and the head of secretariat at the Danish Ministry of Finance.

The shift of profits to corporate tax havens has contributed to the loss of 10% of corporate tax revenues, estimated the authors, Wier and French economist Gabriel Zucman.

"Of course, if there had been no profit-shifting, then countries may have chosen other policy paths, e.g. some might have been less likely to cut their corporate tax rate and engage in the 'race to the bottom,'" the study reads. "It illustrates, however, that the revenue losses caused by profit-shifting are a quantitatively important aspect of the decline in effective corporate income tax rates globally since the 1970s."

The researchers based the study on their analysis of which countries have lost the most in corporate tax revenue annually. Sixteen percent of tax revenue is lost to tax havens in the US each year, according to that analysis, while 32% is lost in the UK, 22% in France and 29% in Germany.

"US multinationals shift comparatively more profits (about 60% of their foreign profits) than multinationals from other countries (40% for the world on average)," wrote the authors. "The shareholders of US multinationals thus appear to be the main winners from global profit-shifting."

The authors noted that the significant shifting of corporate profits to tax havens came after "major policy initiatives from the Organization for Economic Cooperation and Development (OECD)" and the 2017 tax reform package pushed through the US Congress by the Republican Party, which included measures to ostensibly reduce corporate tax-dodging.

"The finding suggests that there remains a dire need for additional policy initiatives to significantly reduce global profit-shifting – such as implementing the global minimum corporate tax that more than 130 countries signed onto in 2021, but now remains in limbo as it is being blocked in the EU and the US," said Wier.

The global corporate minimum tax would ensure all companies worldwide pay a minimum tax of 15% and would require higher taxes of large companies in countries where they have customers.

"The United Nations sustainable development goals clearly state that in order to deliver poverty reduction and to decrease global inequalities, illicit financial flows such as profit-shifting must decline," Wier said.

***Julia Conley** is a staff writer for Common Dreams, where this article was first published under a Creative Commons licence (CC BY-NC-ND 3.0).*

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No to austerity, yes to stronger health systems

International financial institutions have shaped health systems, especially in the Global South, through programmes of structural adjustment and austerity policies. It is imperative that these are replaced by pathways for strengthening public health systems and the social determinants of health.

by Ronald Labonté

For several decades now, the policies of international financial institutions such as the International Monetary Fund (IMF) and the World Bank (WB) have been subjects of concern to health and development activists globally.

Created in 1944 to manage the aftermath of the Second World War, the IMF was to be the emergency lender of last resort to countries facing macroeconomic problems, and the WB was to provide loans and grants, first to rebuild ravaged Europe and, later, to finance the development of market economies in low-income countries in the context of Cold War geopolitical rivalries.

When the global economy went into a long downturn and the world went through two sudden oil price shocks in the 1970s, many developing countries faced sovereign debt crises (the inability to meet regular payments on their international loans) that threatened the stability of global capitalism. The IMF and WB stepped in with new loans or grants to help heavily indebted countries meet their payments but, in return, required these countries to restructure their economic and fiscal policies.

These "structural adjustment policies" reflected the neoliberal economics promoted by conservative governments (such as Ronald Reagan's in the US and Margaret Thatcher's in the UK), and emphasized small government, fiscal retrenchment, trade liberalization, the privatization of government assets, financial deregulation and minimal social protection spending.

These neoliberal policy requirements largely proved disastrous to health, education and poverty reduction, especially in those countries most dependent on them; in Africa and Latin America, the 1990s are still referred to as "the lost decade". Subsequent research has established that the fiscal contraction demanded of indebted countries was bad for the health and social well-being of women, children, the poor, rural communities and of society overall. They failed even to stimulate economic growth, which was the rationale used to defend them.

By the 2000s and the adoption of the Millennium Development Goals, the IMF and WB were more insistent that governments receiving financial bailouts should try to protect their health and education budgets even as they cut back on their overall spending. This had mixed results (some countries did protect their health and social spending, others did not) but, in the context of falling GDP or the devaluation of a country's currency, per capita spending in health and education in many countries often shrank in actual dollar terms.

In the aftermath of the 2008 global financial crisis – a crisis of globally liberalized and deregulated investor greed that made a few people fabulously wealthier and many others substantially poorer – at the behest of the IMF, most governments implemented what we now refer to as austerity, a sort of "structural adjustment" lite. Austerity policies were something new for most of the rich world but were essentially just a repeat of conditions long familiar to developing countries that had become dependent on IMF emergency loans.

"Divergent recovery" from COVID-19

Then came the pandemic. Governments in many low-income countries, already carrying high debt loads, borrowed even more from international markets to support their citizens during this time. This resulted in an international debt burden that once again reached the same levels that had led to the sovereign debt crises of the 1980s.

A new IMF narrative now stressed the importance of avoiding a post-pandemic "divergent recovery", in which some countries steamed ahead with high growth rates underpinned by robust government interventions while others fell further behind. In this account, rather than budget cuts, governments needed to invest in employment and human capital formation. While this sounds good on paper, in many cases IMF emergency loans continue to require fiscal cuts and the liberalization and privatization that will keep many poorer countries in dependent relationships with the world's rich countries.

One recent study found that although the IMF's policy rhetoric has softened, the impacts of its loan conditions will see over 80 countries experience fiscal contraction over the next few years. Some of this will be a direct result of IMF lending conditions. Although not all the pandemic emergency funds that the IMF has made available to developing countries have attached conditionalities, almost half did and still do. The debt distress of recipient countries might be high, the required government budget cuts will be devastating. In other cases, the budget cuts might be milder, but they are still a part of the neoliberal playbook of increasing indirect taxation (which is hardest on a country's poorest), slashing food and fuel subsidies, limiting the public sector wage bill and privatizing state-owned enterprises. These are the same policies that we know from the 1980s and 1990s have almost always led to negative health and socioeconomic outcomes.

Although some IMF lending conditionalities (in some countries) are not as stringent as they were in the past, they are expected to become more rigid in the near term as more countries face multiple health, environmental and socioeconomic crises. And while the IMF and WB do encourage recipient governments to protect their public spending in health, education and social welfare, given sectoral competition for a smaller amount of government revenue, this doesn't always happen. And what about housing? Or water and sanitation?

Or formal employment growth? Or agricultural support to rural farmers? Protecting public investment in the social determinants of health is as important as protecting spending in health and education.

Special Drawing Rights

Instead of renewed (and largely failed) policies of structural adjustment, there are calls for the IMF to issue Special Drawing Rights (SDRs) – the Fund's reserve currency – to support low-income countries' pandemic recoveries. SDRs are virtually interest-free and come without any conditions.

In 2021 the IMF approved the release of $650 billion in SDRs in response to the pandemic, the largest international contribution to pandemic recovery yet. But current rules mean that most of this amount is accessible only to high-income countries. Low-income countries will get just 1% of the SDR allocation. Activists are urging wealthier nations to voluntarily allocate their share to low- and middle-income countries (and some have), but also point out that the IMF should shift its allocation rules so that at least $400 billion is available to the countries that need it most. They have also called on the IMF to issue an additional $500 billion annually in SDRs over the next 20 years to finance climate change mitigation.

Finally, to bring the WB back into the picture: in its support of universal health coverage, the WB continues to actively promote private sector involvement in health systems, in financing, insurance and health services delivery. Publicly funded and delivered services, upon which the poor invariably rely, could find themselves facing cuts while the private health sector benefits from increased public subsidies.

In sum, the IMF and WB are now attempting to project a kinder, softer image. But their role in the global economy is, and always has been, to defend the market economics of capitalism, which, under the past 40 years of neoliberal dominance, has disproportionately benefited the world's wealthier countries and individuals. Unless and until countries address the structural roots of economic inequality, the conditions attached to IMF emergency loans or WB grants will do little or nothing to make the world a fairer place.

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Developing countries need monetary financing

Effective coordination between fiscal and monetary policymaking can support countercyclical and development spending by governments, write *Anis Chowdhury* and *Jomo Kwame Sundaram.*

Developing countries have long been told to avoid borrowing from central banks (CBs) to finance government spending. Many have even legislated against CB financing of fiscal expenditure. Such laws are supposedly needed to curb inflation below 5%, if not 2% – to accelerate growth.

However, these arrangements have constrained a potential CB developmental role and government ability to respond better to crises. Improved monetary-fiscal policy coordination is also needed to achieve desired structural transformation, especially in decarbonizing economies. But too many developing countries have tied their own hands with restrictive legislation.

A few have pragmatically suspended or otherwise circumvented such self-imposed prohibitions. This allowed them to borrow from CBs to finance pandemic relief and recovery packages. Such recent changes have reopened debates over the urgent need for countercyclical and developmental fiscal-monetary policy coordination.

But financial interests claim this enables national CBs to finance government deficits, i.e., monetary financing (MF). MF is often blamed for enabling public debt, balance-of-payments deficits and runaway inflation.

As William Easterly noted, "Fiscal deficits received much of the blame for the assorted economic ills that beset developing countries in the 1980s: overindebtedness and the debt crisis, high inflation, and poor investment performance and growth."

Hence, calls for MF are typically met with scepticism, if not outright opposition. MF undermines central bank independence – hence the strict segregation of monetary from fiscal authorities – supposedly needed to prevent runaway inflation.

Recent International Monetary Fund (IMF) research insists MF "involves considerable risks". But it acknowledges MF to cope with the pandemic did not jeopardize price stability. A Bank for International Settlements (BIS) paper also found MF enabled developing countries to respond countercyclically to the pandemic.

Cases of MF leading to runaway inflation have been very exceptional, e.g., Bolivia in the 1980s or Zimbabwe in 2007-08. These were often associated with the breakdown of political and economic systems, as when the Soviet Union collapsed.

Bolivia suffered major external shocks. These included Volcker's interest rate spikes in the early 1980s, much-reduced access to international capital markets, and commodity price collapses. Political and economic conflicts in Bolivian society hardly helped. Similarly, Zimbabwe's hyperinflation was partly due to conflicts over land rights, worsened by government mismanagement of the economy and British-led Western efforts to undermine the Mugabe government.

Indian lessons

Former Reserve Bank of India Governor Y.V. Reddy noted fiscal-monetary coordination had "provided funds for development of industry, agriculture, housing, etc. through development financial institutions" besides enabling borrowing by state-owned enterprises (SOEs) in the early decades.

For him, less satisfactory outcomes – e.g., continued "macro imbalances" and "automatic monetization of deficits" – were not due to "fiscal activism per se but the soft-budget constraint" of SOEs and "persistent inadequate returns" on public investments.

Monetary policy is constrained by large and persistent fiscal deficits. For Reddy, "undoubtedly the nature of interaction between [fiscal and monetary policies] depends on country-specific situation".

Reddy urged addressing monetary-fiscal policy coordination issues within a broad common macroeconomic framework. Several lessons can be drawn from the Indian experience.

First, "there is no ideal level of fiscal deficit, and critical factors are: How is it financed and what is it used for?" There is no alternative to SOE efficiency and public investment project financial viability.

Second, "the management of public debt, in countries like India, plays a critical role in development of domestic financial markets and thus on conduct of monetary policy, especially for effective transmission".

Third, "harmonious implementation of policies may require that one policy is not unduly burdening the other for too long".

Lessons from China?

Zhou Xiaochuan, then People's Bank of China (PBoC) Governor, emphasized CBs' multiple responsibilities – including financial sector development and stability – in transition and developing economies.

China's CB head noted that "monetary policy will undoubtedly be affected by balance of international payments and capital flows". Hence, "macro-prudential and financial regulation are sensitive mandates" for CBs.

PBoC objectives – long mandated by the Chinese government – include maintaining price stability, boosting economic growth, promoting employment and addressing balance-of-payments problems.

Multiple objectives have required more coordination and joint efforts with other government agencies and regulators. Therefore, "the PBoC … works closely with other government agencies".

Zhou acknowledged that "striking the right balance between multiple objectives and the effectiveness of monetary policy is tricky". By maintaining close ties with the government, the PBoC has facilitated needed reforms.

He also emphasized the need for policy flexibility as appropriate. "If the central bank only emphasized keeping inflation low and did not tolerate price changes during price reforms, it could have blocked the overall reform and transition."

During the pandemic, the PBoC developed "structural monetary" policy tools, targeted to help COVID-hit sectors. Structural tools helped keep inter-bank liquidity ample and supportive of credit growth.

More importantly, its targeted monetary policy tools were increasingly aligned with the government's long-term strategic goals. These include supporting desired investments, e.g., in renewable energy, while preventing asset price bubbles and "overheating".

In other words, the PBoC coordinates monetary policy with fiscal and industrial policies to achieve desired stable growth, thus boosting market confidence. As a result, inflation in China has remained subdued. Consumer price inflation has averaged only 2.3% over the past 20 years, according to *The Economist*. Unlike global trends, China's consumer price inflation fell to 2.5% in August and rose to only 2.8% in September, despite its "zero-COVID" policy and measures such as lockdowns.

Needed reforms

Effective fiscal-monetary policy coordination needs appropriate arrangements. According to an IMF working paper, "neither legal independence of central bank nor a balanced budget clause or a rule-based monetary policy framework … are enough to ensure effective monetary and fiscal policy coordination".

Appropriate institutional and operational arrangements will depend on country-specific circumstances, e.g., level of development and depth of the financial sector, as noted by both Reddy and Zhou.

When the financial sector is shallow and countries need dynamic structural transformation, setting up independent fiscal and monetary authorities is likely to hinder, not improve, stability and sustainable development.

Understanding each other's objectives and operational procedures is crucial for setting up effective coordination mechanisms at both policy formulation and implementation levels. Such an approach should better achieve the coordination and complementarity needed to mutually reinforce fiscal and monetary policies.

Coherent macroeconomic policies must support needed structural transformation. Without effective coordination between macroeconomic policies and sectoral strategies, MF may worsen payments imbalances and inflation. Macro-prudential regulations should also avoid adverse MF impacts on exchange rates and capital flows.

Poorly accountable governments often take advantage of real, exaggerated and imagined crises to pursue macroeconomic policies for regime survival, and to benefit cronies and financial supporters. Undoubtedly, much better governance, transparency and accountability are needed to minimize both immediate and longer-term harm due to "leakages" and abuses associated with increased government borrowing and spending.

Citizens and their political representatives must develop more effective means for "disciplining" policymaking and implementation. This is needed to ensure public support to create fiscal space for responsible countercyclical and development spending. *(IPS)*

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Grappling with power imbalances

The current conjuncture of global crises stems directly from our unequal economic order. Overhauling the system requires transformative policy changes – and popular mobilization to push for these changes.

by Jayati Ghosh

We are living in a world fractured in many ways, facing varied but interrelated and increasingly severe crises which are now reinforcing one another. Yet serious global leadership is lacking: most governments seem obsessed with short-term measures to deal with very specific national concerns, rather than cooperation and engaging with substantive strategies to tackle the looming existential threats to humanity.

The inertia, clunkiness and simple inability to cope of the multilateral institutions set up in the mid-20th century (after another period of global crisis) is now painfully apparent. Even more recent international initiatives to deal with global problems, such as the Conference of Parties (COP) addressing climate change, seem to be failing to deliver any significant decisions or breakthroughs – despite the urgency and the necessity that they do so.

All this is enough to reduce many to despair. But instead, we need to think about why governments persist in clearly disastrous policy choices and whose interests those choices serve. In particular, we need to recognize the power imbalances, globally and within countries, which are reinforcing what may otherwise appear to be socially irrational and unjust policies. Only then will it be possible to force any real change.

Power shift

There is some evidence that this is now more widely recognized, even in international policy discussions. A recent report from the United Nations Research Institute for Social Development (UNRISD) (https://cdn.unrisd.org/assets/library/reports/2022/full-report-crises-of-inequality-2022.pdf) makes this critical question – the need to address power imbalances – clear in its very title, *Crises of Inequality: Shifting Power for a New Eco-Social Contract*. The analysis begins with the important recognition that the current explosion of extreme inequalities, environmental destruction and associated increased vulnerability to crises of different kinds are not the result of "flaws" in our economic system – but stem directly from it.

This economic system is one in which inequality has become the driving force, with those who are already powerful determining the legal and regulatory architecture that ensures their own continued enrichment and power, and generating an economic and ecological trajectory that is very destructive for most of society. It is not just that the elites (rich individuals and large corporations) can disproportionately shield themselves from the impact of various crises, whether these come in the form of such health shocks as the pandemic or the ecological devastation and climate change which make some places uninhabitable and destroy livelihoods. It is also that, as we have seen during COVID-19 and periods of financial and economic volatility, they can even benefit from these crises while millions are devastated.

The UNRISD report argues – as do many others now – that there is a better way forward. This will require a complete reorganization of the ways in which we have, across the globe, organized our economies. Three crucial elements are identified: an approach to the economy that foregrounds the environment and social justice, necessitating a rebalancing of state-market-society-nature relations; transformative fiscal policies based on a fair and just fiscal contract; and a reimagined multilateralism based fundamentally on global solidarity.

This may appear a utopian dream given current geopolitical and socioeconomic realities, all seeming to trend in the opposite direction. But in fact, similar arguments are being voiced more loudly across the world. For example, five decades on from *The Limits to Growth*, the Club of Rome's new book, *Earth for All: A Survival Guide for Humanity*, argues that the required changes are both necessary and possible.

They comprise five major turnarounds: elimination of poverty, reduction of inequality, ensuring basic income security and social protection for all, transformation of food systems, and an energy transformation including a widescale shift to renewable energy. These all require a combination of economic and social policies and legal and political reforms, at national and international levels. This of course in turn requires sufficient popular mobilization around the world to force governments to make these major policy changes.

The UNRISD report recognizes this too. Those in power will make all efforts to perpetuate a status quo that benefits the few at the expense of the many – regardless of the social, human and planetary costs. The report identifies the many ways in which the rich and big business can influence political control, state policies and regulations and the media to ensure that their personal and private interests are served, no matter the implications. National and global elites can even influence the design, content and implementation of purportedly redistributive policies. And these imbalances are exacerbated by spatial inequalities, across and within countries.

Countervailing power is thus required – the power of ordinary people who find strength only in combination, association and cooperation. They have to be convinced and galvanized into action, to support a new eco-social contract. The UNRISD report suggests this can occur if such a social contract is based on the principles of human rights for all, gender justice and solidarity, progressive fiscal contracts, transformed economies and societies, and recognition of the demands of nature and of historical injustices.

This is a tall order. But it is a challenge humanity needs to meet – for its very survival on this planet.

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