



A Lost Decade for Equality, Development and Human Rights?

*Assessing Austerity and its Alternatives
10 years after the global financial crisis*

SUMMARY

Friday, April 20th | 9-10.30am
International Monetary Fund

In 2008, the global financial crisis unleashed a cascade of social, economic and political developments still shaping our world today. After an initial set of counter-cyclical responses to the crisis, a widespread turn towards fiscal austerity has seemingly become the new normal around the world—resulting in what could only be called a lost decade for equality, development and human rights. Ten years on, the growing inequalities resulting from austerity are inspiring outrage and a growing demand for change. The economic nationalism, political populism and fundamentalism which emerged in the wake of austerity pose enormous threats if left uncountered. The almost-daily exposés of tax abuse by multinational companies and high-net wealth individuals contradicts the notion that fiscal adjustments are even necessary in the first place. The international community is beginning to re-think public financing models to make them more equitable, sustainable and accountable to allow for a new decade of socio-economic development with human rights to advance the Sustainable Development Goals (SDGs).

Building on this momentum, the Center for Economic and Social Rights (CESR) – together with the International Labour Organization (ILO) and the Bretton Woods Project—brought together a cross-section of civil society, government, ILO and IMF officials to explore the political, economic and social implications of this Age of Austerity.

Participants addressed a number of questions. What is the scale and scope of fiscal consolidation worldwide today? What have been the economic, social and political consequences? Have these adjustment measures been always necessary? What are some feasible alternatives to prevent the need for austerity—be those through fiscal, monetary or debt policies? If consolidation is needed in some circumstances, how can governments ensure a just adjustment, which place the burdens

on those most able to bear them? What do the positive examples, such as Iceland's, teach us moving ahead? And finally, how is the IMF helping to expand fiscal space in countries facing fiscal stress to prevent the worst impacts of austerity?

Niko Lusiani, Director of the Human Rights in Economic Policy program at CESR, opened the dialogue by sharing some forward-looking lessons learned from several years monitoring fiscal adjustment in countries in very different contexts – from [Spain](#) to [Brazil](#), [Egypt](#) to [Ireland](#) and [Colombia](#). What emerges from all these experiences is the need to more systematically assess the often-hidden human rights risks of different forms of fiscal consolidation, so as to better understand the social, economic and political consequences of different policy choices. Niko [shared](#) how human rights values and norms – such as non-discrimination, necessity, proportionality, accountability – can proactively assist policy makers to address tough dilemmas of policy-making in a crisis, clarify the nature of the risks and the choices involved, identify the winners and the losers of different choices, and better manage any trade-offs in ways which protect the most disadvantaged, promote the public interest and help retain public trust.

Isabel Ortiz, the ILO's Director of Social Protection and a widely-cited expert on [fiscal consolidation](#) and [fiscal space](#), began by exploring the fiscal fallout from the economic crisis ten years ago. She [illustrated](#) the scale of fiscal consolidation from 2010-2020, expected to hit 132 countries worldwide, 82 of which are low and middle-income. She illustrated the scope and composition of these cuts—ranging from subsidy elimination to wage bill cuts, from narrowly targeting social protections to pension, health care and labor market reforms. Many countries increased taxes on basic goods and services consumed by the poor, while also increasing the privatization of certain public services. What's more, these fiscal adjustments have been economically counter-productive, argued Isabel, denting economic growth and contributing to unemployment and job precarity. How are countries going to achieve the SDGs if they are deciding to contract their fiscal space in this way? Isabel then segued into an exploration of the various policy choices governments have to boost fiscal space to prevent the need for painful adjustments. These include: re-allocating public expenditures, increasing progressive tax revenues, expanding social security coverage and contributory revenues, lobbying for increased aid and transfers, eliminating illicit financial flows, using fiscal and foreign exchange reserves, borrowing or restructuring debt, as well as adopting a more accommodative macroeconomic framework, for example by being more tolerant to some inflation. She closed by sharing various success stories of governments investing the political will to boost fiscal space as powerful alternatives to austerity.

Grazielle David, Policy Advisor at the Institute for Socioeconomic Studies (INESC) in Brazil, [shared](#) the findings of a collaborative research project exploring the health, food security and gender impacts of Brazil's fiscal consolidation. After a series of successful counter-cyclical fiscal policies to cushion itself from the worst effects of the 2008 global economic crisis, the Brazilian

government chose a path of deep fiscal consolidation since 2015. The government based its decisions on an incorrect diagnosis of excessive primary expenditures, rather than a more realistic analysis that the increased public debt accrued from the combination of a rapid decrease in revenue alongside an irrationally high interest rate. What at first were punctual austerity measures became structural with the unprecedented Constitutional Amendment adopted in December 2016, which freezes real primary expenditure (mostly social expenditures and investments) for 20 years. Grazielle shared her view that this cap will prevent the country from realizing human rights and advancing the SDGs. After just one year of this Constitutional Expenditure Rule in place, the most disadvantaged Brazilians are already bearing the brunt of adjustment. Specialized services to attend people suffering gender-based violence have been drastically cut. Small-scale farmers and public school children have suffered from deep cuts to Brazil's food security program. Many low-income Brazilians have lost access to essential medicines as a result of closures of public pharmacies. All these impacts compound upon the fact that Brazil's regressive tax system already perpetuates economic and gender inequalities. Grazielle then argued that these human rights deprivations are completely unnecessary, given the plethora of fiscal alternatives to austerity to cover the R\$ 139 billion fiscal deficit. Taxing interest and dividends on personal income could raise around R\$ 70 billion yearly, and this would be borne by those most able to pay especially the super-rich already paying very little. Eliminating tax expenditures could raise R\$ 250 billion annually, while preventing Brazil's epic levels of tax evasion could raise over R\$ 550 billion every year. These sorts of policies, Grazielle pointed out, would actually be in line with the IMF's advice in its 2018 Fiscal Monitor, which urges countries to avoid pro-cyclical policies during a fiscal crisis, and to consider boosting growth by investing in social and physical infrastructure financed through progressive taxation. Grazielle concluded by asking why the IMF seems to be supporting the pro-cyclical spending cap in Brazil despite the emphasis on counter-cyclical policies elsewhere.

Mark Weisbrot, Co-Director of the Center for Economic and Policy Research (CEPR) [followed](#) with a dissection of the political economy of austerity, using the Euro area crisis in 2011-2012 as an example. Mark discussed the emergence of the sovereign debt crisis in this region, and the impacts including increased unemployment, reduced social protections, increased retirement age, decentralized collective bargaining and other measures which put downward pressure on wages. The authorities, in particular the European Central Bank, could have acted much sooner to tamp down spiking interest rates. When the ECB did finally insist on doing "whatever it takes" Mark estimates that Europe remained in crisis, recession, and mass unemployment for about two more years than was necessary. Recession, in other words, was a political choice. Why? Mark explored the political economy of the Euro crisis, arguing that the crisis was taken as an opportunity by some to push for generally unpopular fiscal, labor market, social, and other reforms. Mark then drew more broadly on CEPR's research of IMF policy recommendations around the world from 2008 to argue that the Fund consistently focused on reducing spending, shrinking the size of government, and supporting policies which generally reduced labor's share of national

income, regardless of whether this was appropriate or economically necessary. Mark concluded by discussing the enduring problem for low-and-middle income countries of IMF governance. While the IMF has changed positively in many ways, the fact that it is overwhelmingly controlled by the United States and by European countries may be a key reason that the Fund's policies in low-and-middle-income countries have not changed to match the changes in their research and rhetoric.

Gudmundur Arnason, Permanent Secretary of the Ministry of Finance, Iceland spoke next, [sharing](#) his insider lessons serving as Iceland's top civil servant in the Finance Ministry since 2009. Iceland emerged from the 'perfect storm' of a deep banking crisis by implementing a somewhat un-orthodox but very successful set of recovery measures. A "social stability pact" was an important foundation of Iceland's recovery, achieved through early participatory dialogue with social sectors, unions and other stakeholders. Concerned with how to best mitigate any necessary pain from austerity, emphasis on social cohesion was at the very heart of the adjustment. Retaining public trust meant safeguarding social spending from potentially harmful budget cuts, and higher education spending actually rose during this period. Sheltering the most vulnerable was not seen as a cost, but a needed investment to allow the adjustment program to work over time. The tax system was changed, and new taxes created, including the introduction of a wealth tax and a steepening of progressive income tax structure and better targeting of social benefits. Iceland also instituted capital controls to help stabilize outflows, and adjusted its currency to boost its productive sectors. Iceland sought IMF financial assistance, which Gudmundur characterized as exemplary and mutually beneficial to stabilize the currency, restructure the financial sector and balance public financing. Iceland was in the driver's seat throughout. Due to these and other measures Iceland managed to get new banks going within a year, inequality actually decreased during the crisis, employment was not deeply affected over the medium term, and the financial crisis was contained before it transformed into a broader economic crisis. Was this a lost decade for Iceland? Certainly not. While Iceland was "oddly privileged" in its ability to recover in a relative socially cohesive way, public policies had much to do with the mitigating adverse effects whilst preserving economic sustainability.

Jeffrey Franks, Director of the IMF Europe Office, then shared some of the Fund's current thinking on fiscal policies, especially on the importance of pursuing fiscal adjustment during a downturn while protecting social expenditure. Jeffrey acknowledged that the global financial crisis has caused many countries to experience a Lost Decade, with below-trend GDP per capita and rising poverty and inequality. To tackle these issues, the best policy remains stable economies with sustained economic growth. To this end, Jeffrey shared how the Fund is taking a broader approach to economic policy—and for some time now— moving beyond merely macroeconomic considerations to consider also issues of gender, inequality, and climate change that can be relevant to reach better economic outcomes for society. The Fund has learned to be more flexible and adapt its program conditionality to changing country circumstances, while protecting the most

vulnerable and looking at all the fiscal space options available. In Pakistan for example, Jeffrey recalled, the Fund program supported cuts in untargeted electricity subsidies while protecting electricity prices for the poorest households and used some of the savings to extend the social protection system to many more families and boost monthly payments. Jeffrey cautioned against attributing the costs of an economic disease to its painful cure. The IMF lends money to its member countries when they lose access to capital markets and face a pile of debt. In such dire circumstances, there aren't many short-term alternatives to pro-cyclical policies which can quickly bring the budget closer to balance and re-establish confidence in country's economic policies. Fiscal rules can be one of the tools employed in this difficult adjustment process, but it is for the specific countries' authorities to decide which form these rules might take, as was the case in Brazil.

A lively discussion followed. Participants wrestled with what fair, balanced fiscal rules might look like, and considered whether indeed the medicine often prescribed during sovereign debt crises is based on the wrong diagnosis of the disease. The enduring effects of the 2008 global economic crisis fundamentally questions conventional wisdom. Participants discussed ways to better track and prevent the significant social and economic impacts of these failures, and to draw on success stories like Iceland where protecting human rights had positive economic outcomes.

Niko Lusiani wrapped up the dialogue by pointing to the closing window of opportunity to learn what has failed, and also what has succeeded in ensuring human rights in times of economic crisis. Ultimately, *if* and *how* adjustments occur are policy choices. *Who* they benefit, and *who* they burden, often reflect underlying power relationships in society. Niko concluded with a call to consider human rights values and norms as systemic principles to undergird crisis policy-making. Human rights norms after all are not a straight-jacket imposing impractical rules, nor are they a set unrealizable, vague aspirations. Rather than merely collateral damage, human rights principles can be a caretaker of tough economic policy choices, help open spaces for more transparent, more democratic and more equitable decisions about trade-offs, and provide a tool to ensure social cohesion, trust and a truly just adjustment.

* * *

This event was part of a series of activities CESR is organizing in 2018 to reflect on the economic, social and political fallout of the global economic crisis beginning ten years ago, and to chart out economic alternatives to austerity to prevent another Lost Decade.