Institute for
New Economic Thinking

The Pandemic and the Economic Crisis: A Global Agenda for Urgent Action

Commission on Global Economic Transformation

Macroeconomics & Finance

Globalization

Technology

Climate

Interim Report on the Global Response to the Pandemic

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New Economic Thinking

About INET

We are economists who challenge conventional wisdom and advance ideas to better serve society. Founded in the wake of the financial crisis in 2009, the Institute for New Economic Thinking (INET) is a nonpartisan, nonprofit organization devoted to developing and sharing the ideas that can repair our broken economy and create a more equal, prosperous, and just society. To meet current and future challenges, we conduct and commission research, convene forums for exchanging ideas, develop curricula, and nurture a global community of young scholars.

Our approach is guided by a set of key principles:

- Economists and their ideas must be independent from powerful interests. Otherwise, economics is beholden to those at the very top and fails to serve all of society.
- Complexity and uncertainty are inherent in economic and financial systems. We must question theories based upon the flawed assumption that humans always behave rationally and predictably, and that markets always trend towards equilibrium.
- Inequality and distribution matter as much to the economy as growth and productivity.
- Heterodox models that pose alternatives to the neoclassical orthodoxy are essential to understanding the economy and promoting a vibrant intellectual pluralism.
- History matters. We must learn the lessons of past mistakes, and also draw on roads not taken historically to map a more equal and prosperous future.
- Diversity of race, gender, class, and other forms of identity enrich economic thought.
- An outdated economic structure is endangering our planet—but new approaches could save it. To uncover solutions, economists must first incorporate analyses of climate change, population growth, and stressed resources into their research.
- Multidisciplinary learning. A discipline in isolation develops harmful blind spots. We collaborate with scholars in other social sciences, the humanities, and the natural sciences to better understand our world.

We work with the economics community to:

- Produce and fund innovative research.
- Develop curricula and educational resources for students.
- Support INET's Young Scholars Initiative, a global network that is nurturing the next generation of new economic thinkers.
- Host conferences where leading and emerging economists, students, and other scholars exchange and develop new research and ideas.

We work with influencers and policymakers to:

- Amplify the work of our staff economists and grantees, ensuring that their findings and ideas can have real-world impact.
- Apply new economic thinking to policy questions, as with our Commission on Global Economic Transformation.
- Demystify economics for the engaged public through our blog and video content, social media channels, and events.

About CGET

Initiated by the Institute for New Economic Thinking, the Commission on Global Economic Transformation (CGET) aims to clearly enumerate and articulate the most critical problems in the global economy. Political and economic populism recently swept the developed world. Meanwhile, developing countries are struggling to search for paths to prosperity, and people around the world are coping with the challenges posed by widening inequality, technological disruption, and climate change. These are compounded by the ineffectiveness of current policy tools, raising questions about the role of the state, civil society, along with national and international governance frameworks.

CGET will harness the energy already evident in the academic and public spheres to chart alternative reforms that will support a more sustainable, prosperous course for the world economy. CGET will also build a knowledge bank of high-quality research that will inform policymakers with evidence-based recommendations. Culminating in a final report, CGET will bring research findings and concrete guidance to bear on policy challenges—creating a bridge between meaningful research and leadership that will positively influence the transformation of the global economy.

"The Commission for Global Economic Transformation was created by INET in late 2015 to bring together a group of stellar economists who were acutely aware of a myriad of profound challenges on the horizon that conventional economic analysis was not seemingly capable to address. Since its inception, 21 economists from around the world have been exploring what to do in response to disruptions caused by financialization, global warming, distressed migration, technological disruption, and a form of globalization that has impaired the integrity and functioning of the nation state."

–Rob Johnson, President of INET

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Executive Summary

This Interim Report of the Commission focuses on actions that need to be taken immediately to get the pandemic under control and to ensure a prompt and robust recovery. It takes an explicitly global perspective on these issues, with particular attention to what the international community needs to do to help those in the developing world and emerging markets. The central thrust is that there are a series of actions that the developed countries could take today, at low cost to themselves, but which would be in their enlightened self-interest—and would be of enormous benefit to the billions of people in the developing world and emerging markets.

Section I focuses on worldwide access to vaccines and other medicines. The ugliness of vaccine and other aspects of pandemic nationalism has exposed deficiencies in our international trade and in the global intellectual property rights regime.

The advanced countries, especially the United States, have taken strong actions to reignite their economies and to protect the vulnerable, the many especially low-income individuals that have been badly affected by the pandemic downturn. The risks of doing too little are far greater than those of doing too much. The advanced countries learned, even if briefly, that austerity is counterproductive. Most developing countries are struggling to get the funds to continue existing programs, let alone meet the additional costs imposed by the pandemic. In Section II, we take up this issue, arguing that those countries with fiscal space need to take advantage of it; and that the international community should take actions—like a massive issuance of Special Drawing Rights—to provide more fiscal space to developing countries and emerging markets.

Section III discusses the urgency of addressing the debt issue. One way of giving more fiscal space to developing countries and emerging markets is a comprehensive standstill on debt servicing. But with the pandemic having now stretched to over a year, more is required in the case of some countries: there is a need for a comprehensive debt restructuring, one which doesn't fall into the usual trap of "too little too late," setting the stage for another crisis a few years down the line. The Report describes specific actions that could be taken to facilitate such a comprehensive debt restructuring.

There is real urgency in addressing the three issues we have highlighted. All of this can be done quickly if political leaders in the developed world recognize that no one is safe until everyone is safe and that a healthy world economy is not possible without recovery in its poorer parts.

"Extraordinary times call for extraordinary measures. Failing bold action, developing countries could be on track to lose years or even decades of progress in the post-pandemic world."
–Michael Spence, CGET Co-Chair

Introduction

Over the past year, the world has confronted a pandemic unprecedented in modern times, one which has had, not surprisingly, unprecedented economic consequences. The effects have been disparate within and between countries, with some countries being hit much harder than others, and some individuals and families—especially those at the bottom—facing devastating consequences. Some 131 million have moved into poverty,[1] reversing years of efforts at poverty reduction. While with the roll out of vaccines, there is light at the end of the tunnel, there is a general consensus that what happens over the next few months may impose special hardship on some, with long lasting effects. The world won't emerge from the pandemic until the pandemic is controlled everywhere, and this is a special concern because of the new mutations that are likely to arise where the disease is running its course. So too, the world won't have a robust economic recovery until at least most of the world is on the course to prosperity. Global growth is far more muted now than then, and inward-looking policies in some of the nations where growth has been restored have resulted in an increase in their trade surplus, attenuating the global impact of their recovery.

This Interim Report of the Commission focuses on actions that need to be taken immediately to get the pandemic under control and to ensure a prompt and robust recovery. It takes an explicitly global perspective on these issues, with particular attention to what the international community needs to do to help those in the developing world and emerging markets. The central thrust is that there are a series of actions that the developed countries could take today, at low cost to themselves, but which would be in their enlightened self-interest—and would be of enormous benefit to the billions in the developing world and emerging markets.

Of course, it goes without saying that the advanced countries need to do everything they can to control the pandemic within their own borders and to recover quickly from the pandemic recession. The actions taken by the Biden Administration provide a model for others, with its emphasis on health, education, and protecting those most adversely affected by the pandemic. It has rightly assessed that the risks are asymmetric—the consequences of doing too little are just too great. If the economy recovers faster and more strongly than is anticipated, and significant inflationary pressures emerge, there are monetary and fiscal policies that can be deployed in response. It would, for instance, be a good thing for the world to move out of the near zero-interest rate environment in which it has been enmeshed for the past dozen years, which badly distort capital markets. This report, however, focuses on those countries that are less fortunate and do not have, on their own, the fiscal space, the resources that are available to the advanced countries.

Section I focuses on worldwide access to vaccines and other medicines. The pandemic downturn has had severely adverse effects on the budgets of many countries. Some countries, like the US, have run unprecedented deficits, without any inflationary consequences. They have had no trouble financing these deficits. The advanced countries learned, even if briefly, that austerity is counterproductive. Most developing countries are struggling to get the funds to continue existing programs, let alone meet the additional costs imposed by the pandemic. Today, some are pushing austerity on developing countries, arguing that these countries have no choice. In Section II, we take up this issue, arguing that those countries with fiscal space need to take advantage of it; and that the international community should take actions—like a massive issuance of Special Drawing Rights—to provide more fiscal space to developing countries and emerging markets.

One way of giving more fiscal space to developing countries and emerging markets is a comprehensive standstill on debt servicing. But with the pandemic having now stretched to over a year, more is required in the case of some countries: there is a need for a comprehensive debt restructuring, one which doesn't fall into the usual trap of "too little too late," setting the stage for another crisis a few years down the line. Section III discusses the urgency of addressing the debt issue.

While our discussion in this Interim Report focuses on what needs to be done *immediately,* each of the issues we touch upon needs to be seen as part of a set of longer-term issues that we will address more fully in our final report. The ugliness of vaccine hoarding by some nations and other aspects of pandemic nationalism has exposed deficiencies in our international trade and in the global intellectual property rights regime. This is particularly true when it is clear that no one is safe until everyone is safe and the recovery of the world economy depends on all parts restoring confidence in the future[2]. The looming debt crisis has exposed the glaring deficiencies in our global debt regime. While the urgency of action now means that we cannot delay implementing these systemic changes, this interim report is written so as to highlight the relation between immediate reforms that are urgent now, and what has been revealed by the pandemic regarding deeper longer term reforms that are essential to a prosperous and just future.

[1] The United Nations, World Economic Situation and Prospects 2021

[2] See Commissioner Mohammad El Erian, "No one is safe until everyone is safe", Project Syndicate, Feb 22, 2021, https://www.project-syndicate.org/commentary/g7-covid19-promises-must-go-beyond-financial-aid-by-mohamed-a-el-erian-2021-02

I. Vaccines and Medical Treatment

The awareness of the significance of public health spending has obviously been greatly heightened by the pandemic, even as constraints on such spending as well as inequalities across countries in that regard have intensified. The rapid development of several vaccine candidates is a tribute to what can be accomplished with co-operation and public support; at the same time, the current nature of production and distribution of vaccines has revealed and exacerbated international inequalities. We have witnessed unseemly and unfair vaccine grabs by the governments of some of the advanced countries, sometimes (as in the case of Canada) they have ordered vaccine shots for more than ten times their current population and are appropriating for their country 1.5m doses via COVAX as per its technical right – though this goes against the ethos of COVAX, the alliance designed to ensure access to vaccines for *all.*[3,4] The result is that poor countries have been effectively denied access to vaccines. 44 bilateral deals between governments and pharmaceutical companies (dominated by rich countries) were signed last year, and at least 12 have already been signed this year. WHO Director General Tedros Ghebreyesus noted on 18 January that "more than 39 million doses of vaccine have now been administered in at least 49 higher-income countries. Just 25 doses have been given in one lowest-income country. Not 25 million; not 25 thousand; just 25."[5] As of the time of writing this report, 130 countries were yet to have administered a single dose. As he noted, equitable distribution of vaccines is not just a moral imperative, it is a strategic and economic imperative. At the current rate of distribution, some people in poor countries will not receive the vaccine until 2024, if then. Delayed vaccination of people across the world increases possibilities of virus mutation, reducing the ability to control the pandemic even in rich countries that have bagged vaccines. Prolonged fear of infection because of inadequate vaccination also affects economic prospects in the developing world, inhibiting and delaying their own recovery as well as global recovery.

The WHO's ACT (Access to Covid-19 Tools) Accelerator and the COVAX (COVID-19 Vaccines Global Access Facility led by the World Health Organization, the Coalition for Epidemic Preparedness Innovations, and Gavi, the Vaccine Alliance) were established precisely to prevent this outcome. The purpose is to accelerate COVID-19 vaccine development, secure doses for all countries, and distribute those doses fairly, beginning with the highest-risk groups and spreading to cover the entire global population as soon as possible. However, COVAX is still underfunded, having received $6.3 billion of the $6.8 billion expected for 2021, and actually needs much more funding.[6] The amounts could easily be doubled by rich country beneficiaries. It would even be in their self-interest to do so. It should be obvious that the costs (even if rich country governments were to cover these entirely on their own) of vaccinating all of the world's population, including those in developing countries, are minuscule relative to the risks of mutations, slower economic recovery, etc.

More importantly, COVAX is unable to procure the required vaccines from producers who have received regulatory approval, because of vaccine grabbing by governments. It is essential for countries with bilateral contracts to be transparent on these contracts with COVAX, including on volumes, pricing and delivery dates.

It is also important for other vaccine candidates that have been/are being developed to be seriously considered for wider distribution as soon as they have met the required regulatory standards. The Sputnik vaccine developed in Russia and the Sinovac vaccines developed in China are reportedly effective; and there are other vaccines being developed in India, Cuba, and elsewhere that have potential.[7] The WHO should take a proactive approach to enable global distribution of such vaccines as and when they meet the approved standards, working with regulatory authorities in producing countries.

Insufficient production is an important reason for the poor and unequal distribution, since it has created scarcity. Yet such scarcity is completely unnecessary and could be easily and rapidly remedied.[8] The major factor limiting supply of the approved vaccines is the persistence of patent rights that give pharmaceutical companies a monopoly on production, thereby confining supplies to their own capacities and the few production licenses they choose to issue to others. Patents are

[3] https://www.canada.ca/en/public-services-procurement/services/procuring-vaccines-covid19.html

[4] https://www.foreignaffairs.com/articles/world/2021-03-09/how-many-vaccine-doses-can-nations-ethically-hoard?utm_campaign=tw_daily_soc&utm_medium=social&utm_source=twitter_posts

[5] https://www.who.int/director-general/speeches/detail/who-director-general-s-opening-remarks-at-148th-session-of-the-executive-board

[6] https://www.gavi.org/news/media-room/g7-backs-gavis-covax-amc-boost-covid-19-vaccines-worlds-poorest-countries

[7] The Russian and Chinese vaccines were submitted for WHO approval well before Pfizer and Moderna, but have still not been approved, because their national regulatory bodies are not in the list of WHO's "stringent regulatory authorities" that allows for fast-track.

[8] Current vaccine production capacities in the top three producers alone (USA, India and China) are estimated to be 9.72 billion doses in 2021. (https://www.statista.com/chart/23885/coronavirus-vaccine-production-capabilities-by-country/). Production in both China and India could be rapidly scaled up. (https://www.cnbc.com/2021/02/15/covid-india-could-play-an-important-role-in-producing-vaccines.html) What is more, new supply units can emerge quickly in many other countries when the technology and active ingredients are shared, as in the case of Brazil with the Chinese Sinovac and AstraZeneca vaccines. (https://www.usnews.com/news/world/articles/2021-02-06/brazil-gets-first-active-ingredients-for-astrazeneca-vaccine-from-china)

usually seen as a necessary reward for invention/innovation, yet in the specific case of COVID-19 vaccines, pharma companies have received massive support from governments that have mostly and in some cases completely covered their R&D costs.[9] In the US alone, the six major vaccine companies received over $12 billion in public support;[10] other rich country governments also provided support to these companies for developing these vaccines. They also benefited from prior public research[11] and reduced costs of clinical testing because of more unpaid volunteers for trials. It is likely that the three "leader" vaccines have already received what could be considered as reasonable returns on their own investment, and more.

Nevertheless, advanced country governments have repeatedly blocked attempts in the WTO by India, South Africa, and some other developing countries to suspend patents for COVID-19 vaccines and related treatment.[12] This is surprising, because such suspension would also benefit their own populations by making available more doses of vaccines quickly, and larger supply would reduce costs of additional doses of vaccines, making them cheaper for governments and taxpayers across the world.

The WTO agreement on Trade-Related Intellectual Property Rights (TRIPS) specifically allows for compulsory licensing, and the Doha Declaration on TRIPS and Public Health explicitly mentions public health emergencies as adequate cause to issue compulsory licenses that would allow other companies to produce essential drugs. Some countries (Chile and Israel) have already passed resolutions for such licenses to be issued in the wake of the pandemic. However, the question of transfer of technology is left unaddressed.[13] Individual governments may also fear the consequences of such moves if they have bilateral investment treaties or trade/economic partnership agreements that treat intellectual property as a form of investment that must be protected. Therefore, a global move for suspension and/or modification of intellectual property rights, for matters relating to essential public health concerns, is essential. Since there is as yet no information on the immunity period offered by most of the vaccines, this may be required for a more extended period. In addition, such patent exemption is likely to be required not just for vaccines but for a whole host of treatments, tests, and products (like face masks) related to the pandemic and which may be required for the next few years, including those that are currently licensed but expensive.

Unequal access to vaccines is illustrative of the broader issue of affordable access to life saving medicines under current international arrangements, which the Commission will address in a later report. The "vaccine nationalism" that we have been witnessing was preceded by several ad hoc restrictions to trade in medicines, PPE and even food stuffs in the early months of the crisis, often without reporting the restriction to affected countries or the WTO, as required. In this context, the proposal for voluntary pooling of IPR, made by Costa Rica, and supported by the WHO, deserves serious consideration. The WHO's COVID-19 Technology Access Pool (CTAP) creates a pool of rights to tests, medicines, and vaccines, with free access or licensing on reasonable and affordable terms for all countries, thereby creating equitable access to drugs and medicines and avoiding the disjointed and competitive efforts that have marked governments' response in the pandemic so far. But only 40 (mainly developing) countries have joined, and it is not really effective because of lack of political backing, funding, and participation by patent holders. Governments of advanced countries should press vaccine manufacturers to share their knowledge with local producers and facilitate their ability to do so.

"Too many national and international policies are going directly against the minimum required to end the pandemic, enable global economic recovery, and get back on track for the UN's Sustainable Development Goals."

–Jayati Ghosh, CGET Commissioner

[9] The one company not to get explicit money for its COVID-19 vaccine research still benefited massively from earlier funded basic research on which its vaccine development depended. See fn. 5. Besides, Pfizer is basically using BioNTech's research, and BioNTech got $445 mn from the German govt specifically for this vaccine. (https://www.bloomberg.com/news/articles/2020-11-09/pfizer-vaccine-s-funding-came-from-berlin-not-washington) With total costs of development estimated at around $3.1 billion (https://www.bbc.com/news/business-55170756) and profits for 2021 estimated at around $4 billion (https://qz.com/1967638/pfizer-will-make-15-billion-from-covid-19-vaccine-sales/), Pfizer/BioNTech are slated to get an enormous return on their investment.

[10] https://www.msf.org/governments-must-demand-all-coronavirus-covid-19-vaccine-deals-are-made-public

[11] https://www.scientificamerican.com/article/for-billion-dollar-covid-vaccines-basic-government-funded-science-laid-the-groundwork/

[12] Achal Prabhala, Arjun Jayadev and Dean Baker, "Want vaccines fast? Suspend intellectual property rights", New York Times, 7 December 2020, https://www.nytimes.com/2020/12/07/opinion/covid-vaccines-patents.html

[13] The transfer of technology to licensed producers needs to be required if the patent holder wants to keep active in that market. The holders of the patent still, of course, get rewarded for their innovation; other producers are, however, allowed to produce on payment of a reasonable royalty.

II. SDRs and Fiscal Responses

Government spending in 2020 was needed not just to address the immediate crisis, but to revive employment, investment and growth in the medium and long term. That support needs to continue until the pandemic is fully under control. In some countries, worries about the magnitudes of the deficits and debts are leading some to advocate a cutback in fiscal support. Some are worried that too much support will lead to inflation. This is not the time for austerity.[14] Governments should commit themselves to doing "whatever it takes" to restore growth and protect the vulnerable. They should make use of automatic stabilizers, and sustain support programs, like furlough schemes and extended unemployment insurance, as long as the need for such programs exists, cutting back only when the need diminishes as the unemployment rate falls. We have learned from past experiences that the way to fiscal responsibility is through growing the economy—increasing GDP raises revenues and lowers the debt GDP ratio.

However, there have been very stark differences across countries at different levels of development in the level of fiscal support governments have provided in the wake of the COVID-19 shock. Advanced economies are expected to have taken fiscal support spending to 22.6 per cent of their GDP on average, but the comparable figures are only 6.2 per cent for emerging market and developing economies and 2.4 per cent for the low income countries.[15] If poorer countries have spent and are likely to spend less, while richer countries pump-prime their economies, the damage inflicted by the crisis is bound to worsen preexisting inequalities.[16] (Expressing the differences in fiscal support in per capita terms makes the inequities even more glaring: The developed countries spent $9,836 per person in stimulus spending compared to $17 per person spent by the LDCs. The per capita stimulus spending in the developed countries has been roughly 580 times higher than that of the LDCs although the per capita income of the developed countries is only 30 times higher than that of the LDCs.)

This suggests that the need for a remedy in the form of large issuance of Special Drawing Rights (the international liquidity that can be created by the IMF) is clearly urgent. The delay in doing so, after the first such proposal at the IMF in March 2020, has made the concerns even greater. At present, approximately $655 bn of SDRs could be issued without asking for the approval of parliaments and congresses. Such an issuance has the great advantage that it is essentially costless. Earlier fears that this could be inflationary are not relevant in the current global economic conditions, especially when it is dwarfed by the monetary expansion in rich countries. This would immediately provide developing countries with an increase in their reserves and enable them to engage in much-needed public expenditure with less concern for the effects on the external balance; it could also provide some means of repayment for countries with pressing external debt problems.

It should be noted that a number of countries (such as those currently with Balance of Payments surpluses) are unlikely to use their new allocation of SDRs. The expansionary effect of a new SDR issue would be greatly boosted if such countries make available their allocation to countries in need. There are several ways in which this could be done: writing off or reducing the bilateral debts of poor countries; directly giving or loaning SDRs to specific countries; contributing SDRs to a Global Social Protection Fund and/or a Global Public Investment Fund, both of which are being actively considered in international discussions. (In our Commission's next report, we will discuss the possibility of a more regular issuance of SDRs, and the development of institutional frameworks for linking such issuance with aid, facilitating advanced countries donating their SDR allocations to other countries, and/or for the provision of global public goods.)

However, a new SDR allocation alone is unlikely to address the problem of insufficient fiscal response in a large part of the developing world. This is because one major reason for the reticence of developing country governments derives from concern about capital flight resulting from large public deficits. This problem of accumulated presence of private foreign debt and investments has been amplified by recent borrowing during the pandemic. This makes the volatility of cross-border financial flows a major concern, not only because of possibilities of greater instability but because of the depressing effect this is having on domestic fiscal expansion and even on necessary spending on public health. The need to enable and even encourage a wider variety of capital management techniques that would reduce the volatility of financial flows is therefore more pressing than ever.[17] In addition, there is a particularly

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[14] At the same time, governments should close tax loopholes and do what they can to reduce tax evasion and avoidance, including by demanding country-by-country reporting by multinational companies. It does also make sense to impose a windfall profits tax on corporations that have benefited from the pandemic.

[15] IMF Fiscal Monitor Update January 2021.

[16] The developing countries entered the current crisis with significantly larger levels of fiscal deficits in 2020 (about -10%) compared to fiscal deficits in 2009 (about -3%). They also have significantly larger current account deficits compared to CA deficits in 2009.

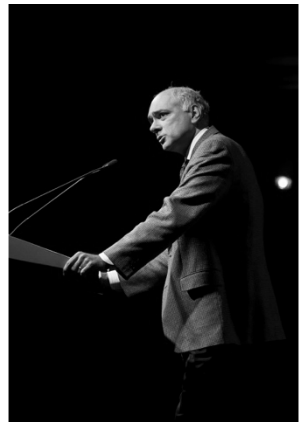
[17] The IMF recognized the importance of employing capital account management techniques in the aftermath of the 2008 financial crisis. Since then, advances in economics have heightened understandings of the positive role that such interventions can have on economic stability, especially in developing countries.

strong case at present for a globally adopted Tobin tax on foreign exchange transactions.

The IMF plays a large role in the macro policies undertaken in many developing countries, especially those that are facing balance of payments problems and turn to it for advice and support. It is encouraging to note that the IMF leadership has actively supported large and prolonged fiscal packages for recovery in the US and EU. It has even recognized the need for enhanced public spending in developing countries, despite the adverse external circumstances. The latest IMF Fiscal Monitor notes that "Reflecting elevated debt levels, exchange rate risks, and concerns about rating downgrades and adverse market reactions if large deficits persist, many emerging market and developing economies are expected to tighten fiscal policy in 2021....Emergency lifelines should only be rolled back gradually where local transmission has been low and activity has begun to normalize by reducing the coverage and generosity of programs. In those countries, further measures should be deployed to support the recovery as needed."

However, when it comes to policy conditions for loans to countries facing balance of payments stress, the IMF actions do not appear always to be consistent with its own recent statements. Analysis of the contents of recent and ongoing IMF agreements[18] has revealed that between March and September 2020, 76 out of the 91 IMF loans negotiated with 81 countries involved cutting public expenditure in ways that could result in deep cuts to public healthcare systems and pension schemes, wage freezes and cuts for public sector workers such as doctors, nurses and teachers, as well as unemployment and other benefits, like sick pay. Nine countries, including Nigeria and Angola, have been asked to introduce or increase the collection of regressive value-added taxes (VAT) that fall disproportionately on the poor. 14 countries, including Lesotho, Tunisia, Barbados, and El Salvador, have been asked to freeze or cut public sector wages and/or jobs, affecting health care in countries that are already poorly served. In Ecuador, the IMF asked for reversal of increases in health care spending and stopping cash transfers to people unable to work. Nearly one-third of the countries with IMF loans also face surcharges on unpaid interest (amounting to more than $4bn) even in the midst of the pandemic, and these can add sharply to debt servicing costs.[19]

In many developing countries, increased domestic spending on essential areas and for economic recovery would be possible without requiring more foreign exchange and without generating significant inflationary pressures; they could therefore borrow from their central banks to spend more (as in the rich countries) if they were not constrained by such conditionalities. This continued pressure for fiscal austerity in IMF agreements and the focus on measures that increase inequality (like regressive taxation) and reduce the quantity and quality of public service provision are inconsistent with the needs of global society now, particularly in light of the challenge of the pandemic.



"The COVID-19 pandemic has brought to the forefront longstanding gaps in global governance. In this report, we address three key areas – vaccine development and roll-out; economic policies for recovery; and debt management. Having orderly and equitable global processes in these areas is essential to serve us well now and in the future."

—Rohinton P. Medhora, president of the Centre for International Governance Innovation and CGET Commissioner

[18] Spending, accountability and recovery measures included in IMF Covid-19 loans", Oxfam Report, October 2020.

[19] Kevin Gallagher, "The IMF's surcharges are unfit for purpose", Financial Times, March 3, 2021, https://www.ft.com/content/cc82f5bf-36c6-454f-b7f0-a4a18576ff2b

III. Debt Relief

Even before the pandemic, many countries had undertaken excessive debt. In some cases, lenders seeking profits or political influence found easy prey in governments badly in need of funds. Well intentioned governments were irrationally optimistic of the returns that they could obtain. Less well-intentioned governments saw opportunities for private profit or for bolstering their political credentials. Twenty years after the Highly Indebted Poor Countries (HIPC) initiative on debt restructuring, it appeared that many countries were in a precarious position. The stock of external debt of low-income countries rose from $80 billion in 2006 to $160 billion in 2019. Private players contributed to this spike, with the share of private non-guaranteed debt in total external debt stocks of LICs increasing from 3.2% in 2010 to 10% in 2019.[20]

Recent changes in debt markets—with more lenders and more borrowers, and the risk of private debts quickly morphing onto public balance sheets—have made it harder to monitor and control excessive debt accumulation, and made debt restructuring all the more difficult. Over the five years ending 2019, while government debt as a ratio to GDP rose by 12 percentage points from 40% to 52%, private debt rose by 21 percentage points from 102% to 123%.[21]

The previous section emphasized the importance of public spending to offset the contractionary impacts of the pandemic recession. But the developing countries and emerging markets do not have the resources that the advanced countries do. That is a large part of why the amounts spent so far have been so small.

But further constraining their ability to spend are the payments that the highly indebted countries have to make to service their debt. Money that is sent abroad to service their debt is money that could have been spent to rejuvenate the economy, to provide health protection for citizens, to purchase vaccines, etc.

In the beginning of the pandemic there was an agreement among the G-20 for a moratorium on servicing of the debt for the poorest countries for their official (bilateral) debt, called the Debt Service Suspension Initiative (DSSI). The hope was that others would join, and in particular the private sector. But they did not. The lack of comprehensive participation has a devastating effect: those who might be willing to join are hesitant to do so, as they see the net beneficiary not being the poor people in the poor country, but the recalcitrant creditors.

Total debt servicing of 73 DSSI eligible countries was about $374 billion, of which $257 billion was owed to the private creditors. Without the participation of the private creditors, DSSI was of limited benefit. The DSSI initiative aimed to offer debt servicing relief of $12.2 billion. This would have been only about 0.65% of their GDP (unweighted) – barely anything when their fiscal deficits ran 10-12% of GDP. At the end, only 46 of the 73 DSSI-eligible countries decided to participate and requested only about $5 billion of debt relief in 2020.

Meanwhile, as we noted above, the depth and duration of the pandemic downturn in some countries has meant that what is needed today is not just a debt moratorium, which simply kicks the can down the road while making the debts owed by the developing countries larger, but a deep and timely debt restructuring.

Today, collectively, 120 low and middle-income countries owe $3.1 trillion of external debt, and servicing this debt will be a huge impediment to the recovery of the indebted countries and the global economy. Instead of reduction in public external debt, we witnessed massive increases in public debt during 2020.

There are many ways by which the international community—and especially the creditor countries—could facilitate such a restructuring. If the few governments that did not vote in support of the UN Principles for Sovereign Debt Restructuring recognized and accepted those principles—including the principle of sovereign immunity—it would encourage the private sector to engage better in debt negotiations. If there ever were a time to recognize the principle of force majeure and necessity, this is it: countries should not be forced to pay back what they cannot afford, especially when doing so would cause as much suffering as it would in some countries today. The international community should work quickly to change laws that discourage debt restructuring (such as that of New York, which provides for 9% pre-judgment interest) and which encourage litigation (such as the treatment of champerty in New York State).

[20] CP Chandrasekhar, using World Bank WDI database, https://www.networkideas.org/news-analysis/2021/02/the-challenge-of-ldc-debt/

[21] World Bank, Global Economic Prospects 2021.

Long-Run Reforms and the Urgency of Action Today

The Commission believes that in each of the areas discussed here deeper reforms are needed. We need to revisit, for instance, the intellectual property regimes and the system for financing lifesaving drugs, to ensure that there is adequate research being done on the most important diseases that affect mankind, wherever they live, whether in poor countries or rich, and that ensure that lifesaving medicines are accessible for all; we need a better system of macroeconomic coordination, to sustain global macro stability; and we need a better system of resolving debt crises—and making it less likely that they occur and less likely that they are allowed to endure when they harm so many people. Our final report will deal with these and a number of other critical issues facing the international community, including how to address climate change and how to better promote development in the 21st century—in the digital, AI, post-industrial world.

But now, as we imagine light at the end of the tunnel, should not be a moment of complacency.

There is real urgency in addressing the three issues we have highlighted. All of this can be done quickly if political leaders in the developed world recognize that a healthy world economy is not possible without recovery in its poorer parts.

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