

Statement by Juan Pablo Bohoslavsky

UN Independent Expert on the effects of foreign debt and other related financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights



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Distinguished co-panelists,

Ladies and gentlemen,

I am grateful to UNCTAD, my former colleagues, for the opportunity to present and discuss views on debt and human rights. Today, I will present the preliminary conclusions of my next report to the UN Human Rights Council next March in which I reflect on the links between financial crises, inequality and human rights.

Let me frame my intervention by posing the following questions: Does inequality lead to more financial instability? Does financial instability lead to higher levels of inequality? What are the human rights impacts of increased inequality? And finally, what guidance does human rights law provide for addressing inequality?

Economic inequalities can negatively affect the full enjoyment of a wide range of civil, political, economic, social and cultural rights. The links between, on the one hand, wealth and income inequality and, on the other one, human rights, have been receiving in the last years increasing attention by the international community and civil society, and a better understanding of the negative effects of increased inequality for social development has recently emerged. Reducing inequality within and among States is, for example, included as one of the UN Sustainable Development Goals. This goal includes promoting the social, economic and political inclusion of all. It also encompasses the adoption of fiscal, wage and social policies to achieve progressively greater equality and better regulation of global financial markets and institutions.

Yet, there is one particular area of inequality that has so far largely been neglected: the links between inequality, financial crises and human rights. Financial crises and adjustment programs not only impair the general economic performance of a country, but frequently increase inequality hitting in particular vulnerable population groups. However, the human rights community is much less familiar with the insight that inequality may be not only an outcome of financial crises, but also an important contributing factor to the emergence of financial crises.

Inequality and perpetuating policies can result in violation of human rights law. In the following, I will point out just a few fundamental aspects in this regard:

First, all international human rights treaties include the principle of non-discrimination. This principle does not only apply to equality before the law, it is equally applicable to the enjoyment of social, economic and cultural rights, such as the right to food, housing, health or social security. It does not only cover formal discrimination, but also substantive discrimination, meaning discrimination in practice and in outcomes. Human rights law does not necessarily imply a perfectly equal distribution of income and wealth, but a distribution of resources in society that guarantees individuals an equal enjoyment of the realization of their basic rights without discriminatory outcomes. When income inequality results in such discriminatory outcomes, it becomes a human rights issue.

Second, income inequality clearly violates the rights enumerated in the International Covenant on Economic, Social and Cultural Rights, when due to such inequality a significant number of individuals within a society cannot enjoy minimum essential levels of each of the rights enumerated in the Covenant, while other individuals have more than sufficient resources available to guarantee a basic enjoyment of these rights.

Third, States are obliged to use maximum available resources for the progressive realization of economic, social and cultural rights. Progressive realization implies that States have to ensure the enjoyment of minimum essential levels of rights on a non-discriminatory basis first. It is my view that States may fail to use their maximum available resources as well, if they fail to undertake reasonable efforts to ensure domestic revenue generation and redistribution to address human rights violations in a context of income inequality. This would for example be the case if a State fails to address such inequality through appropriate taxation or social policies.

I do not support the idea that perfect economic equality is something desirable. A certain range of income inequality may be necessary to produce incentives for innovation and social development, provided every person enjoys equal opportunity. However, today, this is a myth in many countries and many people in the world do not enjoy equal opportunities.

In addition, economic inequalities are usually translated into other types of inequalities. This is obvious in at least three areas: political influence, legal representation and education. One example: if only a few people have the financial means to substantially contribute to election campaigns, there is a considerable risk that the elected politicians may exercise stronger loyalty to their financial backers than to their voters. This risk of undue influence undermines the principle of equality enshrined in the right to vote.

And finally, economic inequality often contributes to social exclusion and marginalization of certain groups and individuals. Moreover, if inequality entrenches social cleavages along regional, religious, racial or ethnic lines, social instability and violent internal conflict become more likely and severe.

Allow me a few words on the results of my review of relevant economic research:

As mentioned above, I was interested to find out more on two dimensions of the interaction between inequality, sovereign debt and financial crises: One, I looked at the contribution of inequality to sovereign debt increases that may degenerate into financial crises. Two, I surveyed the reverse relationship, that is, the distributional impact of financial turmoil.

As to point one, there is evidence of direct and indirect causal links between inequality and the dynamics of sovereign leverage and financial crises. The underlying mechanisms are manifold. First, existing inequalities affect the tax base of a State. Then, inequality leads to higher demands for redistributive policies, putting an additional burden on the State's finances. Moreover, the erosion of the income tax base may lead to alternative strategies of taxation such as increases of import or export taxes, indirect or corporate taxes. The risk of such strategy is that the revenue generated is more volatile than that originating from income tax. It may therefore increase the volatility of fiscal revenues and also increase the risk of sovereign debt crisis.

Crucially, the probability of a sovereign debt default increases with the level of inequality. This is where tax policy comes into play. Research suggests that tax progressivity may decrease incentives for defaulting, which has important policy implications. The direct impact comes from the "corrosive" influence of inequality on the tax base, as well as its enhancing effect on demand for redistributive policies through debt default. Then, inequality leads to higher demands for redistributive policies, putting an additional burden on the State's finances. Default may well be seen as such a redistributive measure.

Inequality contributes also in more indirect ways to sovereign debt rises and default. In very broad strokes, this can be described as follows:

To start with, private and public debt on the one hand and financial crisis on the other are strongly related. In the context of recent crises, this relationship has even been characterized as a “diabolical loop”. Although private debt appears to be generally regarded as a stronger predictor of financial instability, sovereign debt may thus be a main triggering factor as well. Moreover, high levels of public debt have an undeniable impact on the aftermath of crises leading to more prolonged periods of economic depression.

In addition, we have to note a strong positive relation between inequality and private household debt. High inequalities appear to be connected to a rise in credit demand (overborrowing) and credit supply (overlending), or underconsumption because of a drop in purchasing power. While more research on these aspects on a cross-country basis is needed, most recent evidence, especially on the US, seems to support that households may increase their borrowings in response to rising inequalities. In this context, it should not be ignored that the political shift towards deregulation of financial markets has also greatly contributed to the credit boom and the current crisis.

Private debt leading to banking crises may cause massive output losses and bailout costs for governments. More importantly, the resulting contraction in the tax base and necessary countercyclical policies set to fight the downturn put public budgets under extreme pressure. Consolidation policies, introduced to help the situation, may add to the pressure if they turn out to be counter-productive due to a negative multiplier effect. The IMF itself has recently acknowledged that this negative multiplier effect may be larger than expected.

As far as the distributional and social impact of financial crises is concerned, most of the surveyed studies conclude that financial crises, as well as subsequent policy measures taken to handle their consequences (e.g., fiscal retrenchment and public spending cuts) enhance inequalities.

A debt crisis may have a massive depressive impact on output, which may in turn affect the level of inequality. From a general point of view, the distributional impacts of financial crises are far from being negligible: most studies concur about an increase in both income and functional inequality (i.e., a decrease in the labor share of value added) following a financial crisis. Fiscal consolidation following a sovereign debt overhang may also have strong distributional consequences, both directly – in form of social spending cuts – and indirectly – in particular by an increase of unemployment. As outlined at the beginning of my remarks, the resulting inequalities may have serious consequences for the enjoyment of human rights.

Let me finish this presentation by saying that my findings call for consistent policy responses. This implies, one, strong regulation of the financial sphere. And two, we need to combat growing inequality at its root. These two aspects should be seen as two sides of the same coin as the development of an unregulated financial sector and the rise of inequalities are two dynamics feeding each other and creating financial instability and possibly financial crises. The main challenge remains to address both simultaneously.

For example, this dynamic between inequality, debt crises and economic and social rights must be well reflected in debt workouts and measures taken to overcome financial crises. A fresh start for a country’s economy must take into account the implications for inequality.

This could create a virtuous circle: Reducing inequality through positive steps not only protects the most vulnerable during crises, but also contributes to overcoming the crisis and ensuring future financial stability. If inequality is not properly addressed or even worse, increased, a prominent part of the problem will remain.