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The Right to Land and Livelihood: What is at Stake?

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29 August 2011

We are in the midst of a global economic crisis whose end is not yet in sight and could last as long and prove as devastating as the Great Depression in the 1930s. The ongoing crisis has already destroyed of tens of millions of jobs and forced millions of poor people to move to even more uncertain and unstable livelihoods. Even if the crisis were to end tomorrow, because of the vulnerable situation of poor households, it will have caused permanent changes in millions of life plans and prospects because of a variety of processes such as malnutrition of babies, the leaving of children from school, and the movement of families in search of food and income.

In my speech, I want to present on three points.

First, this crisis, along with other recent crises in food and fuel, can only be understood in a coherent way as being driven by longer-term trends toward greater economic inequality. In the context of this ongoing trend, talking about the right to land and livelihood would appear to dissonant since current trends favor the increasing dispossession of access to land and other livelihood-producing assets of the poor (and their consolidation into larger pools wealth by a smaller set of people).

The second main point I would like to make is that the responses so far to the current crisis are dominated by policies which put a premium on protecting these increasingly unevenly distributed pools of wealth, even to the detriment of overall economic recovery. If it is truly the case that the current crisis is the fruit of increasing inequality and dispossession, then only by reversing this process is genuine recovery possible. Pursuing stable and expanded rights to land and livelihood for the poor is both a start of a possible reconfiguration of economic growth processes and an action consistent with recovery from the crisis.

Thirdly, I would like to briefly discuss alternative policies and the efforts that we see in this regard in the place where I work.

Inequality's Role in the Current Crisis

The story that is generally agreed about the current crisis is that it started with the near collapse of financial institutions beginning in 9 August 2007 (when the European Central Bank and the US Federal Reserve Bank released Euro 95 billion and $24 billion

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respectively to shore up the banking system) in emergency funding in the face of increasing collapses in hedge funds that were heavily exposed to subprime assets. But this initial policy did not work, despite the view expressed by the IMF Managing Director in April 2008 that "the worst is over". The peak of the financial sector collapse occurred five months later in September 2008, with the bankruptcy of the Lehman Brothers investment company and the near-bankruptcy of the AIG insurance company. The financial system which had become intricately interconnected as a result of the decade-long frenzy in creating and trading financial instruments seized up.

The loss of financing facilities then brought to an end the selling of houses, cars, and consumer goods. This sparked a cascading process of job retrenchments starting from the largest, modern firms to smallest retail stores. Developing countries, which had been mainly bystanders in the deterioration of the assets of banks in advanced countries, lost export markets and export-dependent jobs. They also lost financial facilities, when foreign banks repatriated their assets to home offices to shore up their balance sheets.

What is less understood is how the global financial sector collapse was driven by processes of increasing economic inequality. This event can be seen as the culmination of the global process of process of deregulation, privatization, and tax cutting which began in the 1980s, motivated by the belief that reducing the state's role in the economy will lead to faster growth and greater wealth for all.

Developing countries deregulated their trade and removed restrictions on capital flows in order to increase their exports and obtain capital from abroad. The advanced economies "forgot" the costly historical experiences which lay behind their financial regulations and dismantled these systems in order to compete with other states in attracting capital from other states.

These economic reforms replaced the previous paradigm where states had borne the primary responsibility over the economic advancement and well-being of their citizens with a paradigm based on global competition over production as a result of the entry of developing countries into world trade and the subsequent entry of former socialist countries in the 1990s following the collapse of the Soviet Union. Countries competed with each other by deregulating, privatizing, and reducing taxes (which ultimately reduced the capacity of states to fulfill many of their social protection obligations).

In the advanced countries, growth in the financial sector outstripped growth in all other sectors. Between 1960 and 2006, the financial sector in the United States expanded from 14 to 20 per cent of the economy, while manufacturing fell from 27 to 11 per cent. While US GDP grew 27 times during the same period, total debt increased 64 times, debt by financial companies by 409 times, and household debt by 64 times.

Most important, incomes of those working in finance outstripped those in manufacturing. Tax reductions encouraged the reinvestment of earnings in back into the financial sector, instead of in new jobs and new economic activities. In the meantime, wages of workers in rich countries did not keep up with their productivity so their purchasing power from their own earnings fell. By the time the financial collapse occurred, income distribution in the United States was as badly skewed as it was before the Great Depression.

Manufacturing had moved to many developing countries seeking to export these goods to advanced economies. For the most part, competition among countries in exporting required suppressing wage increases and an increased dependence on foreign markets, instead of domestic demand which depends on growing workers wages, for growth. The problem with export-dependent growth is that the demand has to come from rich countries. Because income was increasingly concentrated in rich consumers, there was the danger that developing country exports could not be sold in rich countries.

The emergence of subprime lending, which allowed poorer consumers to buy houses and the borrow money against the increase in house values fueled the demand for developing countries exports. But this could not last because allowing citizens with no possibility of paying off their debts from their slow growing incomes to borrow destroyed the soundness of the financial sector. The collapse of the financial sector was a matter of time.

In all this time of crisis build-up, the state sector in practically all developing countries significantly reduced their investment in rural areas and agriculture. One reason is that because of the tax cutting, state resources had declined. The second reason is that international development agencies advised that increased trade (and better export performance) would provide countries with the resources to import their food and other agricultural necessities.

Increased vulnerability of livelihoods in the rural areas helped to channel workers to export industries at lower wages. The policy had placed hope that greater corporate involvement in agriculture would reduce the need for state investment in the sector, increase efficiency and hasten technological improvements. The food crisis does not provide much evidence that the expected benefits from corporate dependence occurred at the scale needed, even though agricultural companies have grown enormously and made enormous profits from their operations. In the end, the overall policy approach undermined domestic food security which came to haunt the global economy with the ongoing food crisis.

This insecurity has stimulated entry of financial companies in holding agricultural contracts as an additional vehicle for keeping these assets. This entry in turn has amplified the swings in prices beyond what would have been involved in closing demand and supply gaps. The larger price swings have imposed untold suffering – reduced access to food during a price upswing and reduced livelihood and farm earnings during the downswings – and political instability.

Poverty is endemic in developing countries with underdeveloped agricultural sectors. One possible way to accelerate agricultural development is through land consolidation by allowing large private sector firms to do so. This will involve dispossession of access to land by small farm holders as a matter of policy. Research has shown that large scale farming is not necessarily more efficient and more innovative than small scale farms, recognizing that the meaning of small scale varies among crops and among regions of the world. The weight of agricultural research suggests that investment spending and technological innovation by small farmers is critical in improving agricultural productivity and securing rural livelihoods.

These kinds of investment in time and resources by small growers however requires predictable and protected access to land, stable access to agricultural inputs and to markets.

The food crisis has also thrown a spotlight on another disturbing trend which aggravates land dispossession. Private companies are purchasing foreign lands for the purpose of growing food crops to sell back to their home countries or to the world market. This is being done even by corporations from developing countries. At this point, these are investments in assets (in the same way as during the crisis, investments in gold have helped protect asset values of rich people without significantly adding new jobs) and have not yet produced significant amounts of agricultural output.

This new trend tends to alienate land that is already being used for other, usually more locally appropriate, uses. These investments are putting on pressure on local forest and water resources. Its expansion has relied on the relative powerlessness of small farmholders, both economically and politically, to the asset speculation motivations of large corporations, often abetted by government policies under their influence of powerful private interests.

Ending the Role of Inequality and Dispossesion in Economic Growth

Growth based on growing inequality and dispossession has proven to be unsustainable. Finding alternative paths to restoring economic growth and vitality based on more equalizing trends and widespread access to economic assets is the challenge of the times. Unfortunately, the politics in many countries are obstructing this search. Policy responses to the crisis have emphasized using public resources to rescue financial institutions without requiring them to write-off their claims against consumers, home borrowers, and even whole countries such as Greece and Ireland. While such write-offs will reduce the asset values of financial institutions and rich individuals, these will allow borrowers to restart investment and economic growth, which will ultimately redound to the benefit of everyone. Despite the infusion of public funds, financial institutions have not significantly increased financing for investment and new jobs.

There is a need for a broader view of what is the private sector, going beyond wealthy individuals and large corporations. In the first place, the key private sector is what we economists call “the real sector” which produces goods and employs people must be restored. The economy right now serves the needs of the financial sector. This must be reversed. Logic suggests that the financial sector instead should serve the needs of the real sector. To undertake the required rebalancing, states must recover the power to regulate the financial sector so that its resources and energies are rechanneled to investing in actual economic activities, not in trading financial claims within itself.

There is a need to reconsider the place of a export-oriented strategies that relies on low wages and vulnerable livelihoods because of the need to compete for foreign investment which might transfer to other more cost-competitive countries. There is a need to rethink the current system where individual countries compete among themselves for foreign investment accommodation. This has forced countries to reduce regulation and dismantle protection of workers and access to land by small farmers. Instead, private investors should compete among themselves to compete to be permitted to operate in countries that are well-regulated and have a productive labor force.

This kind of economic framework had been successfully tried in the years after World War II, when the world community realized that a beggar-thy-neighbor inter-country competition would be to the detriment of all. The growth rates in the 1950s and 1960s were the highest since the introduction of capitalism. There has been a secular reduction in overall economic growth rates as incomes and assets became more concentrated and state capabilities in economic regulation and investment shrunk.

Such an alternative framework, however, has profound implications for the question of the rights to land and livelihood. It will require a relegitimization of the state’s role of ensuring equity. This will include greater capability to educate and provide economic skills to everyone. But it will also require state capability to regulate the size and concentration of land ownership.

In the case of livelihoods, there has been a recent trend in which the poor, particularly women, are being encouraged to become entrepreneurs, supported by microfinance agencies. No doubt, there will be instances of entrepreneurial success in this approach. But as a general response to poverty, such financing often degenerates into financing consumption which cannot be paid back and leaves borrowers heavily indebted.

Microfinance and the corresponding emphasis on entrepreneurship can be the occasion to forget about or ignore the indispensability of creating and sustaining livelihoods, which requires a greater responsibility and control of pattern of economic on the part of the state. Private entrepreneurs can create some livelihoods. But the role of public agencies and overall economic growth is the most critical. This means ensuring that people have the skills to undertake livelihoods which have a specific and stable place the local economy, a completely different approach from that of casting everyone to the uncertain and vulnerable whims of entrepreneurial gambles.

The approach of casting access to land and livelihood the framework of human RIGHTS in which the state, representing society, is the responsibility holder is thus a proper formulation. The rights approach places the primacy in the right order. For the majority of people on Earth, land is not just an alternative asset class for the purposes of protecting the value of wealth. It is the source of food and livelihood; it defines a household role and place in the economy; it is the basis of identity and status in society.

While wealthy individuals and corporations might still be able to treat land as an alternative asset class, this behavior must be circumscribed by the right of all people, only by virtue of being a member of society, to have access to land and to a livelihood.

This implies that the state must have sufficient legal and material capability to carry out its responsibility to ensure access to land and livelihood for everyone, a responsibility that cannot be left to activities of private markets. Ensuring that all its citizens can find a meaningful and dignified role in the economy means that the state must have the legal tools to regulate asset markets, not just protect the wealth accumulating activities of its citizens, to govern the growth of the economy to ensure that it is creating jobs for and building the corresponding skills and capabilities for everyone. The role of the state must thus drastically change from the prevailing conception of its role since the 1980s.

Alternative Policies and National and International Initiatives

The Millennium Development Goals framework agreed among Member States in the United Nations emphasize that the worth of an economic system should be mainly measured by its impact on poverty and equality. However, these goals were agreed at a time when the dominant belief in the effectiveness of unregulated private investment and asset holding in ensuring growth and mobilizing investment prevailed. This view had been enforced by donor countries and agencies on developing countries. This model has failed. There is a need to go beyond poverty targets and identify the appropriate kinds of economic policies and assignments of rights. The need for regulation and a return of the role of the state in economic life has become unavoidable.

The formulation “inclusive growth” underlies many of the economic ideas underlying the activities of agencies in the UN system. This formulation has immediate implications for kinds of capabilities states must have and for the kinds of policies that are necessary to ensure that performing on the responsibility on the right and to land and livelihood will prove to be economically feasible. Among the key policies that have been identified are:

1. A reorientation of the economy to rely more on domestic income which requires increasing domestic incomes and wages, and reduce dependence on export markets.

2. Financial and asset markets have to re-regulated and their energies harnessed toward production and job creation. This will require a level of cooperation among countries because capital tends to escape to less regulated jurisdictions. The role of asset speculation in land grabbing and in influencing food prices through the asset class of forward contracts must be subject to state regulations.

3. It is important to end competition among countries for foreign investment and export markets through policies of deregulation, privatization, and tax cutting. The proper venue for competition must be within the private sector, not among states. This will require stronger cooperation among states in the collection of taxes from their citizens and multinational companies. States must protect the rights of workers and small farmholders to organize for their rights and to obtain the capability to participate in national and international economic policymaking

4. National states must have the policy space to regulate the flow of goods and capital so that they can influence their paths of growth and the kinds of jobs and livelihoods created in their economy.

It is clear that realizing the right to land and livelihood for all implies a thoroughgoing reform of national and international economic policies. This is why I am honored to be invited to this meeting. I congratulate you for this farsighted effort and wish it all the success.