*In the Name of God, the Most Merciful, the Most Kind*

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# Afghanistan's 'Poverty Status Update'

The second edition of the Poverty Status Update report for Afghanistan was released last week and it showed that socio-economic progress is increasingly at risk in the country. The report highlighted that Afghan households had been negatively affected by the crisis triggered by the security and political transition. The decline in aid and growth damaged jobs, and the escalation of conflict further intensified the vulnerability of the Afghan people.

It also pointed at an increasing poverty – about 39 percent of Afghans now poor. Moreover, it revealed that there are not enough jobs to meet the needs of a fast-growing labor force and provide livelihoods to illiterate and unskilled Afghans. The diffusion and intensification of conflict, the report showed, would further perpetuate poverty down to future generations as children miss school and more families flee their homes.

The report also revealed that the economic and security crisis have given rise to widening inequalities between those who have the means to cope with shocks and those who must give up vital assets to stay alive. This widening gap can also be observed in urban and rural lives - urban Afghans are safer and have better access to services and economic opportunities than those living in rural areas.

Moreover, the report also highlighted that inequalities also persist between Afghan men and women, who increasingly find it difficult to access education and health services. The report, therefore, warned that if left unattended, poverty and inequality can further undermine social cohesion and jeopardize progress attained in the past 15 years.

Most importantly the report also raised concerns about the declining GDP growth rate. It showed that GDP growth slowed down from 1.3 percent in 2014 to .8 percent in 2015, and marginally improved to 1.2 percent in 2016. However, it said, while the economy is expected to eventually rebound, growth will likely remain below the 8 percent required to fully employ Afghanistan's growing labor force; meanwhile, conflict and fragility will likely continue constraining Afghanistan's development and progress toward reducing poverty.

As a matter of fact, both the Karzai and Ashraf Ghani governments did not consider poverty as a top priority matter. Therefore, there has not been any comprehensive policy to tackle the issue of poverty.

As a result poor Afghan people face different sorts of miseries almost on daily basis. As the socio-economic conditions in the country have not improved, the people face different sorts of social and economic problems and, therefore, take every sort of step to fulfill the overgrowing necessities of life. The poor people in particular are influenced the most and they are compelled to live from hand to mouth because no considerable development has been made in the country.

In fact, the funds and assistance that flowed in the country for development projects were devoured by corruption and ended in the bank accounts of the ruling elite. Therefore, the differences among the rich and poor have multiplied and so have the social and economic problems for the poor people.

The poor people are compelled to take decisions that may even endanger their lives, while, there are people in the country who have no concerns for these people. Particularly, the authorities within the government and other responsible institutions have only managed to benefit themselves. As a result, the broadening gap between the rich and poor strata has reached to its extreme.

The widening gap between the rich and the poor or the class disparities can be best observed in capital Kabul. There are some tall, luxurious and magnificently built houses with visibly all the facilities of life while on the other hand there are houses that cannot be termed houses in the true sense of the word.

Many of them are nothing more than tents that cannot guard the people against the severe weather conditions.

Then there are many people who live without houses. They have to spend their nights along or under the different bridges in the city. These disparities between the rich and poor are affecting the society as a whole. There are millions who do not have the basic requirements of life and are compelled to live their lives in the remotest areas, without much support and attention.

Food, cloth, shelter and other requirements like education and security are non-existent for them. And, at the same time, there are people who own properties worth millions of dollars. These are all the results of an intense stratification. The poor do not seem to be having many opportunities of improvements in their lives and that means that social mobility, which can provide oxygen to a stratified society does not exist, while the social injustice is on the rise. The law and order system, instead of treating everyone alike, has served as the slave of the upper-class. The current scenario if goes unchecked can bring further misery to Afghan society.

# Congratulations, President Macron – Now we Oppose you

## By Yanis Varoufakis

Prior to the second round of the French Presidential election, DiEM25 (the pan-European movement of democrats, mostly of the left, that I helped to found) promised Emmanuel Macron that we would "mobilize fully to help" him defeat Marine Le Pen. This we did – incurring the wrath of many on the left – because maintaining "an equal distance between Macron and Le Pen," we believed, was "inexcusable."

But there was a second part to our promise to Macron: if he "becomes merely another functionary of Europe's deep establishment," pursuing dead-end, already-failed neoliberalism, we "will oppose him no less energetically than we are – or should be – opposing Le Pen now."

Relieved that Macron won, and proud of our clear support for him, we must now fulfill the second part of the promise. No "honeymoon" period: we must oppose Macron immediately. Here's why. Macron's electoral program made clear his intent to continue with the labor-market policies that he began to introduce as former President François Hollande's economy minister. Having spoken to him about these policies, I have no doubt that he believes in them strongly. He follows a long tradition of blaming the legal constraints on firing workers for the fall in permanent employment and the emergence of a new division between protected and precarious employees – between insiders, with well-paid, quasi-tenured positions, and outsiders, who work as service providers without benefits and often under zero-hour contracts. Trade unions and the left, according to this view, are actually a conservative force, because they defend insiders' interests while ignoring the plight of the burgeoning army of outsiders.

For Macron, a true progressive must not only support reforms that strengthen employers' right to dismiss and manage workers; equally important are increases in social security for those losing their jobs, training in new skills, and incentives to take up new jobs. The idea is simple: If employers have more control over how long and how much they pay their employees, they will hire more workers under normal contracts. And the improved social safety net will ensure that workers with the right skills will be available.

There is, of course, nothing new to this idea. Known by the unfortunate neologism "flexicurity," it was implemented with some success in Denmark and other Scandinavian countries in the 1990s. But flexicurity is bound to fail badly in France, thus strengthening Le Pen's xenophobic nationalists, because it can work only in a macroeconomic environment of investment-led growth. Alas, this is not the environment that the new French President has inherited. In today's France, investment in fixed capital, relative to national income, is at its lowest level in decades – and falling. This reinforces deflationary expectations, which, when dismissals become easier, imply a rapid reduction of permanent, full-time positions. In short, rather than ameliorating the division between insiders and outsiders, Macron's labor-market legislation would deepen it.

Macron's greatest difficulty will be the same as Hollande's: dealing with Germany. The German government – and consequently the Eurogroup of eurozone finance ministers, which Germany dominates – never misses a chance to castigate the French for their failure to bring the government's budget deficit below the agreed 3%-of-GDP limit.

Macron has pledged to achieve this by dismissing civil servants, cutting local government spending, and increasing indirect taxes, which ultimately hit the poorest. In any economy afflicted by low and falling investment, cutting government spending and raising indirect taxes is bound to weaken aggregate demand, thus confirming the pessimistic expectations that prevent investors from investing and giving the deflationary wheel another spin.

As if this were not enough, Macron has promised to redress an injustice he feels burdens the low-income, asset-rich French: he pledged to reduce taxes on wealth or assets that do not generate incomes above a certain threshold. As with flexicurity, there is a logic to this: Taxing assets that do not generate incomes makes little sense from an ethical, political, or economic viewpoint.

Even so, to reduce wealth taxes before closing the loopholes that allow the income-rich (who are often also asset-rich) to pay their share of income tax makes little sense. To do so while practicing austerity on the poor is to commit an act of vandalism on an already divided society.

Macron understands the folly in the foundations of the eurozone. And he has promised to work tirelessly to convince Germany that Europe must speedily create a proper banking union, common unemployment insurance, a debt-restructuring mechanism for countries like Greece and Portugal, a proper federal treasury, Eurobonds (operating like US Treasuries), and a federal parliament that legitimizes the federal treasury's authority.

So, what will Macron do when Germany says nein? In fact, the Germans have said so already. According to Wolfgang Schäuble, Germany's finance minister, all Europe now needs is to convert the European Stability Mechanism into a European Monetary Fund. In other words, if France wants joint funding, it must submit itself to the same conditionality that wrecked Greece. Martin Schulz, the leader of Germany's opposition Social Democrats, agrees that no new fiscal institution is necessary, proposing only that France and Germany jointly finance some common investment projects. In other words, nein means nein.

Hollande, lest we forget, also won the French Presidency by promising to challenge Germany on eurozone macroeconomic policy – and then quickly abandoned the fight. If Macron is to succeed, he will need a credible fallback position and a European strategy that he can pursue without German agreement. Such a plan is not in evidence. All we see is a readiness to do whatever Germany demands in advance, including "flexicurity," austerity, and so forth, in the hope that Germany will then agree to some of his eurozone reforms before it is too late.

Reasonable people understood that Macron ought to be supported against Le Pen. Now they understand that Macron's policies will worsen the deflationary, regressive cycle that is Le Pen's greatest ally. With the election over, opposing Le Pen now means opposing Macron. (Courtesy Project Syndicate)

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# Could the Iranian Economy Sink Rouhani?

## By Djavad Salehi-Isfahani

For a "managed democracy," Iran holds remarkably unpredictable presidential elections. And the upcoming election on May 19 is no exception, given that the incumbent, Hassan Rouhani, is facing two tough conservative challengers.

Rouhani's opponents are Mohammad Bagher Qalibaf, the mayor of Tehran, who garnered one-third as many votes as Rouhani in the 2013 election; and Ebrahim Raisi, a high-ranking cleric who is considered to be a possible successor to Iran's Supreme Leader, Ayatollah Ali Khamenei. Both candidates have sharply criticized Rouhani's economic record.

When Rouhani was elected in 2013, Iran was suffering from 35% inflation, the national currency had depreciated by two-thirds in the previous year, and international sanctions were crippling the economy. Oil exports and output of automobiles – Iran's leading manufacturing industry – had each declined by two-thirds, and restless industrial workers were demanding back pay.

Rouhani had campaigned against former President Mahmoud Ahmadinejad's populist policies, promising to put jobs and production before redistribution. He said that he would control inflation, negotiate a deal with the West to end the sanctions, and restore macroeconomic stability. By any reasonable standard, he delivered: inflation is in the single digits for the first time in three decades; sanctions have been lifted in accordance with the 2015 nuclear deal; and the exchange rate has been stable for four years. But, unfortunately for Rouhani, many Iranians who had expected their living standards and employment prospects to improve as a result of these successes are now feeling disappointed.

To be sure, the economy has started to grow again, after contracting for two years. But there is disagreement about the current recovery's breadth and durability. Because much of the recent growth has come from a doubling in oil production, it has not increased most household incomes, or created new employment opportunities. Thus, International Monetary Fund monitors who visit Iran twice a year have projected 6.6% growth for the 2016-2017 fiscal year, but only half that for the 2017-2018 fiscal year.

Survey data show that, outside of Tehran, average real (inflation-adjusted) household expenditures fell during the first two years of Rouhani's term, while poverty rose. In the 2015-2016 fiscal year, there were almost one million more people below the poverty line than when Rouhani took office. And yet these outcomes do not necessarily amount to broken promises. When voters rallied behind Rouhani's call for lower inflation, they may not have realized that prices rising at a slower rate would also mean slower income growth. And the lay public was not alone: even one of Rouhani's economic advisers initially boasted that people were 20% better off because the rate of inflation had declined by 20 percentage points.

Moreover, Rouhani has pursued a tight fiscal policy that deepened the recession and delayed the recovery. He has kept the government's rate of fixed investment at around 5% of GDP, which is twice what it was under Ahmadinejad, but still too low. Government fixed investment is the traditional driver of economic growth in Iran, and has been as high as 20% of GDP in good times.

Making matters worse, Iran has a major investment bottleneck, owing to collapsing real-estate values and a frozen banking system. Iran's banks are still saddled with bad loans forced on them by Ahmadinejad to finance his populist projects. And the Central Bank of Iran has failed to get credit flowing again, even though it has been pumping money into the economy and increasing liquidity by 26% per year. As a result, real interest rates have risen to above 10%, choking off private investment. With the state unwilling to spend, and the private sector unable to borrow, total investment fell by 9% in the first nine months of the 2016-2017 fiscal year, after falling by 17% during the same period the previous year.

Despite renewed economic growth, unemployment actually increased in the last four years. Although the economy created more than a half-million jobs each year, new entrants to the labor force pushed up the unemployment rate, from 10.1% to 12.1% – and from 24% to 29% for workers aged 15-24.

Khamenei has led the charge against Rouhani's record on jobs. In a speech in March marking the Iranian new year, he called for a year of "production and employment," and urged the next president to create jobs with local resources, rather than look for assistance abroad. Rouhani's economic strategy has clearly failed younger Iranians, who account for 60% of the unemployed, and who generally favored him in the 2013 election. But Iran's youth will likely overlook Rouhani's economic-policy shortcomings, and vote for him again, because they prefer his more relaxed social-policy positions to his conservative rivals' stern moralizing.

Older Iranians, however, might not be so forgiving. Youth unemployment affects everyone, but particularly the adults who must house and feed the jobless. According to 2015-2016 survey data, of the 65% of men under the age of 35 who lived with their parents, 85% were single, and 24% were unemployed. Marriage and employment are the two defining elements of adult life in Iran. Without them, many young people have turned to crime and drugs, which has had far-reaching adverse effects.

Rouhani has also hiked energy prices by 50%, without increasing cash transfers to the poor. We do not know the extent to which the poor supported Rouhani in 2013; but they are less likely to do so this time. Rouhani severely criticized Ahmadinejad's cash-transfer policy, which was designed to compensate for lost bread and energy subsidies. But even if Ahmadinejad's overzealous attempt to deliver "the oil money to peoples' dinner tables" added to inflationary pressures, it also seems to have reduced poverty and inequality significantly. Still, Rouhani is expected to win re-election, not least because every president of the Islamic Republic has served two terms. But if he loses, his economic policies – which delivered too little, too late – will be to blame. (Courtesy Project Syndicate)

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