



FUTURE IMPERFECT: *ECONOMIC AND SOCIAL CHALLENGES AFTER 2015*

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From Millennium Deprivations Goals to Sustainable Development Goals

Human development + structural adjustment/PRSPs + aid effectiveness (UNDP/World Bank/OECDDAC)

Helped to galvanise aid flows and rejuvenate development cooperation..but heavily donor driven and development equaled free markets plus targeted measures to alleviate extreme poverty and social ills

To the extent they have been achieved not due to MDGs...favourable external conditions





From Millennium Deprivations Goals to Sustainable Development Goals

SDGs a more ambitious agenda that is universal and integrated (not business as usual)

17 goals, 169 targets and several hundred indicators....

“The simple truth is that most people in most places want much the same thing; a decent job, a secure home, a safe environment, and a better future for their children. Markets are central to these goals, but they cannot be left alone to achieve them.”





G20 vs The Onion

We have today therefore pledged to do whatever is necessary to:

- **restore confidence, growth, and jobs;**
- **repair the financial system to restore lending;**
- **strengthen financial regulation to rebuild trust;**
- **fund and reform our international financial institutions to overcome this crisis and prevent future ones;**
- **promote global trade and investment and reject protectionism, to underpin prosperity; and**
- **build an inclusive, green, and sustainable recovery.**



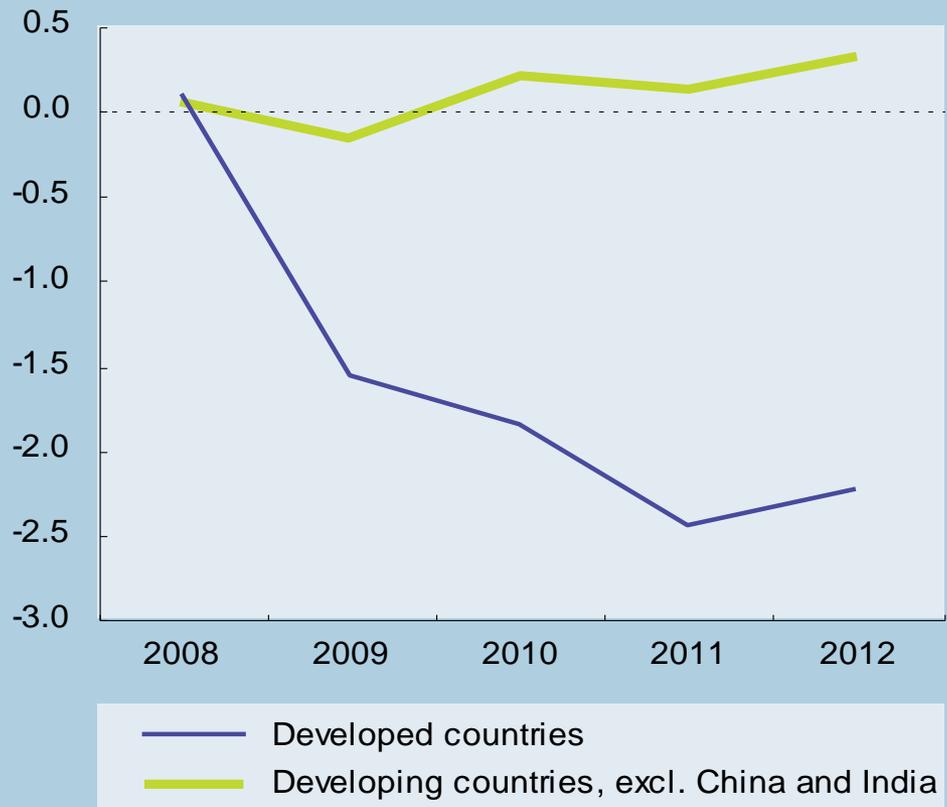
**Recession-Plagued
Nation Demands New
Bubble To Invest In**





Unsatisfactory employment performance in both developed and developing countries

**Changes in employment rate
(per cent of the working age population)**

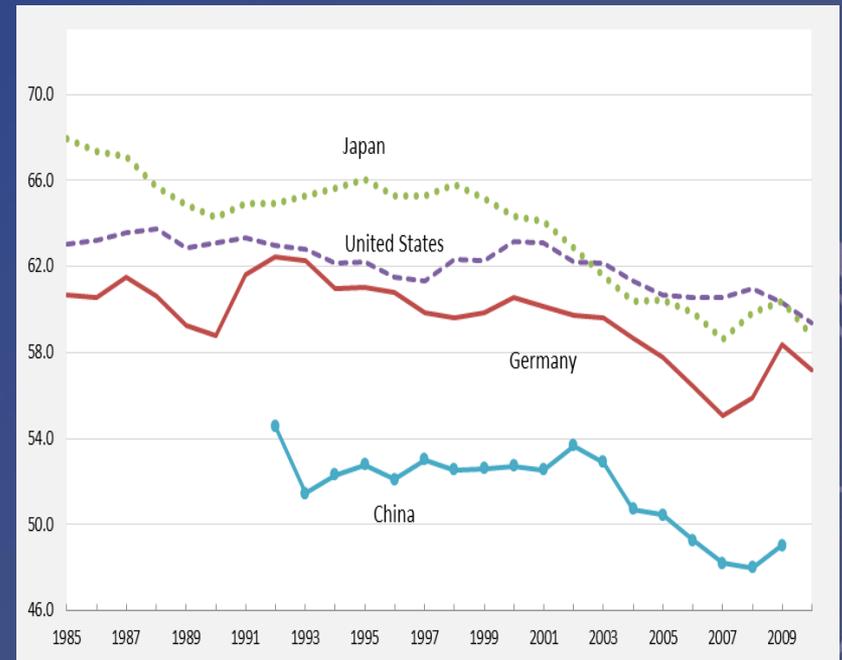
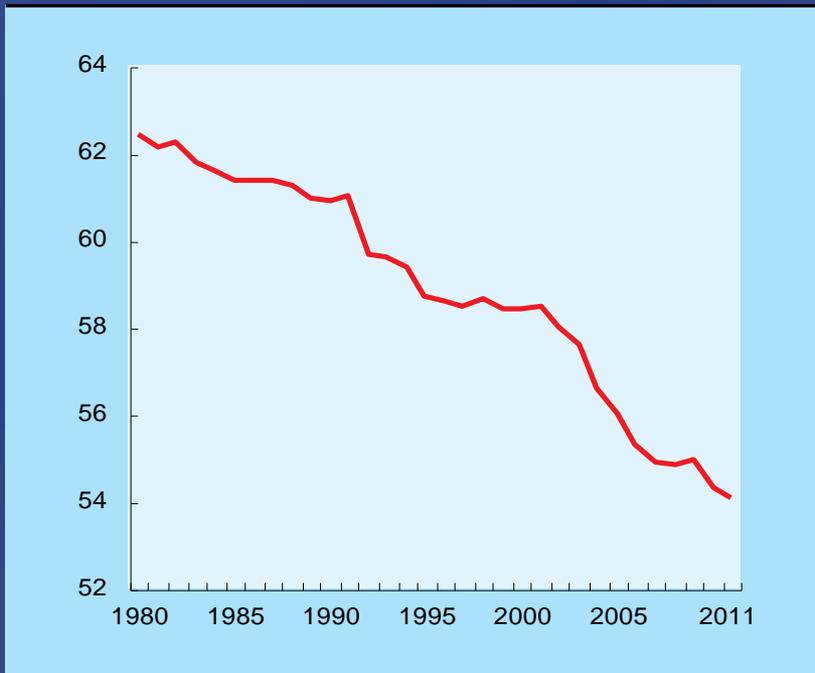


- Despite progress, generating more employment and formal work in developing countries remains a pending task
- For developed countries the jobs deficit caused by the sluggish recovery is by far the most pressing problem



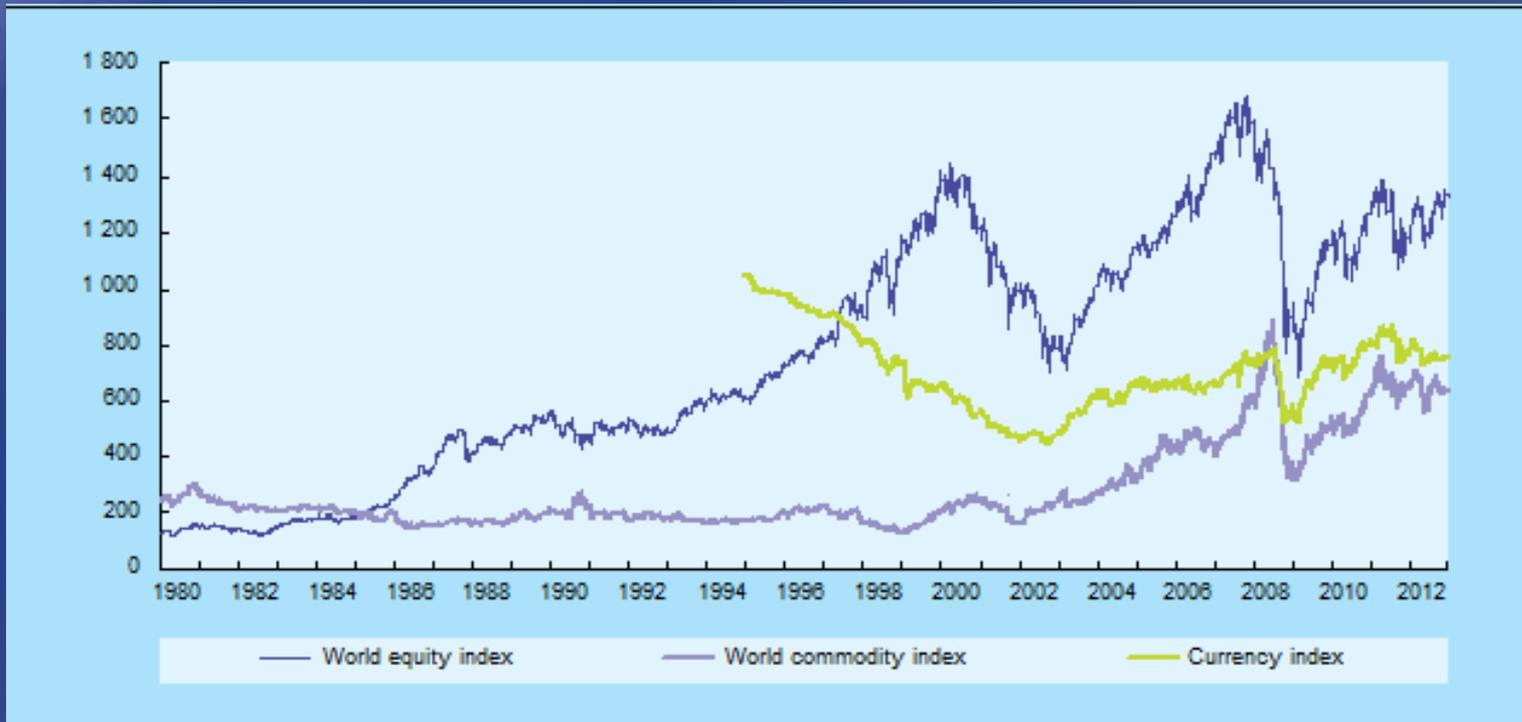
Wage compression (growing inequality)

Share of labour income in world gross output, 1980-2011

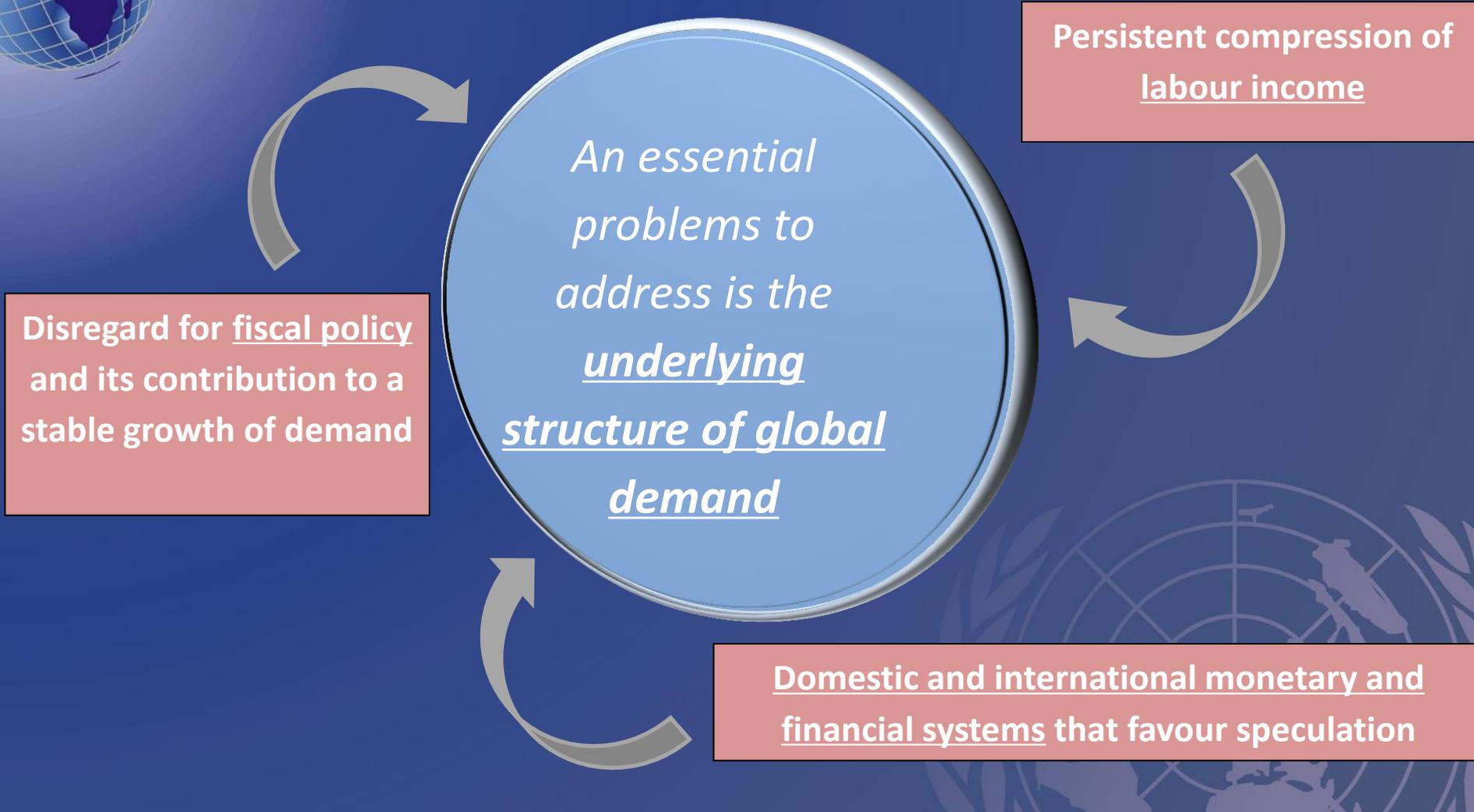




Spillovers resulting from inconsistencies with monetary policy



Excesses of liquidity ended up in financial markets, adding instability and exercising pressure on the already reduced policy space



leading to debt-fueled spending in some countries, matched with export-led, cost-saving strategies in other countries, which fed into GLOBAL IMBALANCES



Financialization

- The increasing proportion of national income accruing to the financial sector; financial profits and rentier incomes.
- The growth, complexity and increasingly speculative nature of the activities mediating between savers and investors, an explosive build-up of debt; asset price and debt-driven growth
- proliferation of new financial products and processes to manage the risks accompanying increasing levels of indebtedness
- Rights of the owners of financial assets are beyond social accountability, extension of financial market calculations into expanding areas of economic and social life:
- The validation of economic policies by reference to financial market interests, performance indicators devised, managed and endorsed by the financial institutions; a “quiet coup”





The problematic configuration of global demand and policies point to uncertain future

- **Risk scenario 1:**
Economic growth could be maintained for some time, until accumulated imbalances unwind again.
- **Risk scenario 2:**
Global growth decelerates, financial markets become even more unstable, boom-bust cycles persist
- **Risk scenario 3:**
Secular stagnation in the North pulls down the South, heightened economic and political tensions





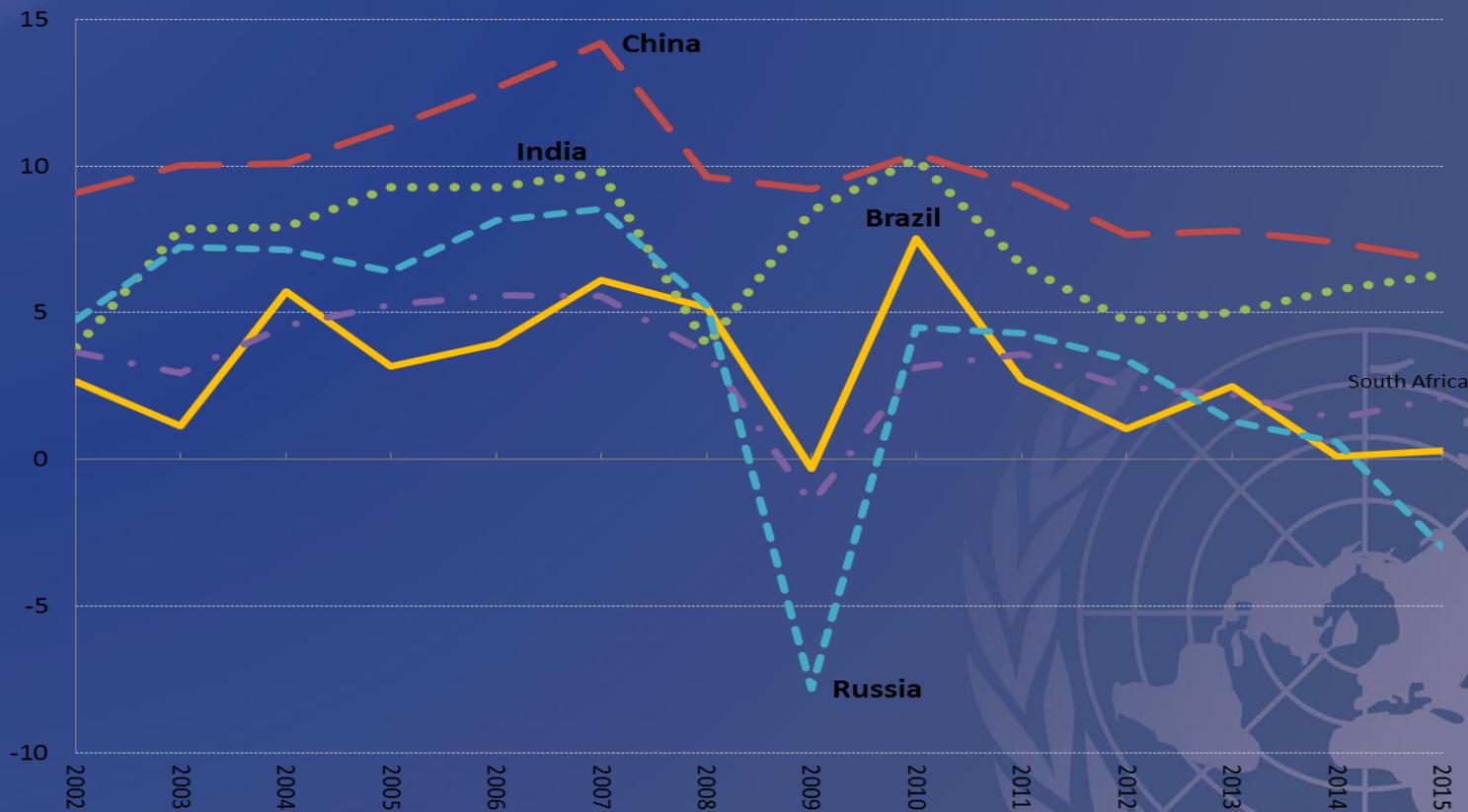
Strategic policy scenarios for sustained growth and employment

- Boost public spending (as the primary basis for stable growth of consumption and private investment)
- Improvements in income distribution; wage-led growth combined with a robust tax regime
- Transform the supply-side, better links between investment technological progress, and export expansion
- Tame finance: credit creation for the promotion of employment-generation production activities





BRICS: growth decoupling?





New growth strategies for the South

- A more balanced demand structure
 - Raising domestic wages – minimum wage; incomes policy?
 - Raising public revenues and spending (particularly public investment)
- Industrial restructuring (to match rapid urbanisation)
- Less focus on export competitiveness...but attention to regional (and south south) trade and investment links





... greater policy space

Skilful use of policy space to pursue proactive trade and industrial policies with a view to rebalancing growth strategy

- Refocus on multilateral agreements which recognize the legitimate concerns of developing countries
- Eliminate pro-investor-biased mechanisms embedded in International Investment Agreements that reduce policy space
- Carefully consider loss of policy space when engaging in bilateral and regional trade and investment agreements
- Joining global value chains should not simply mean aligning policy measures to interests of lead firms





Policy space needs matching fiscal space

- Governments need to finance the investment and other public spending required for development: erosion of link between fiscal space and economic development
 - Footloose corporations (and HWIs) use tax competition and tax havens to circumvent fiscal responsibilities; Tax evasion part of the business model of "ersatz capitalism";
 - 8–15 per cent of the net financial wealth of households is held in tax havens, a loss of public revenue of \$190–290 billion per year (\$66-84 billion in developing countries)
 - Misuse of “transfer pricing” and “thin capitalization” for shifting accounting profits to low- (or no-) tax jurisdictions; developing countries losing over \$160 billion annually
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A taxing challenge...national and international

Tax competition and privatizations in the 1990s reduced the share of natural rents captured by many primary exporting economies;

- Nationalise; between 2004 to 2012, 17–34 per cent of the rents from extractive industries where private firms dominate; figure much higher where public firms dominate
 - Clampdown: on transfer pricing as well as various tax evasion practices
 - Transparency: some positive steps in G20/OECD, but bigger role for developing countries and better surveillance of private companies needed
 - Multilateralise: greater UN role, an international convention against tax avoidance and evasion; International initiatives such as the Transparency Initiative in Extractive Industries should be made mandatory and extended
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