ITUC CSI IGB

Macroeconomic policies for an inclusive and sustainable Post 2015 Development Framework

Introduction

As the global development community looks towards a Post 2015 Sustainable Development Framework, the world continues to struggle through one of the worst economic crises in modern history. The early response to stimulate the economy through various forms of public expenditure was quickly halted by debt/deficit scares, prompted largely by governments assuming reckless private sector debt accrued by insufficiently regulated banking, and many of the world's governments, including developing countries, implemented paralyzing austerity measures. Social expenditure came under pressure in industrialised countries, whereas in developing countries it expanded below the expected rate. At the same time the financial sector, largely responsible for the economic disaster, escaped any responsibility and contributed little to any recovery. Financial re-regulation has been slow and arduous with the financial sector resisting at every step. Tax base erosion and flows resulting in the illegal transfer of billions of dollars out of developing countries to rich countries tax havens has yet to be forcefully addressed. States will need resourceful budgets to meet current MDG commitments and address the challenges of a Post 2015 framework

Flexible employment and excessive informality in the economy have pushed wages and working conditions to even lower levels, contributing to greater income inequality. Moreover, many small and medium enterprises find themselves forced into markets dominated by few big buyers who exploit unfair trading practices in order to maximise profits and minimise taxes at the expense of small producers. In short, globalised production has created many losers and few winners, leading to greater inequality.

As multilateral negotiations on trade remain at a stalemate, several governments have pursued bilateral and regional trade agreements. Apart from risking the fragmentation of the world economy in trading blocs–and all geostrategic consequences that it entails—the new trade and investment agreements go far beyond classical trade and into core competencies of sovereign governments, including medicine patents, online data security and privacy, guidelines for harmonised regulation-making and policy-making, as well as the role of state owned enterprises and public services.

Reducing income inequality

Income inequality continues to worsen after the crisis. Major corporations and capital holders found means to circumvent traditional mechanisms of redistribution—chiefly, taxation, quality public services and labour institutions. Moreover, the blossom of a speculative economy, which demonstrates little connection to societal needs and the real economy, has managed to create elusive and distorted value through complex financial products.

Making finance work for the real economy
A post 2015 development framework must make a commitment to effective taxation of profit-making and capital accumulation, with a view to driving trillions of dollars into productive investment, including in greening the economy. All the practices used to avoid and evade taxation and undertake transfer pricing must be addressed in order to guarantee that taxes are paid where profits and value added are generated. The days of self-reporting and self-assessment by financial institutions must come to an end and should be replaced by country by country reporting.

Together with ensuring fair taxation, a global framework must address the behaviour of financial markets through the implementation of the G20 commitment to "ending too-big-to-fail groups" by taking structural measures to shield retail commercial banking activities from volatile investment banking and market trading. Action should be taken to implement the G20/Financial Stability Board Action Plan regarding regulating "Over the Counter" derivatives trading, shadow banking and the implementation of resolution frameworks. Furthermore, global taxation (Financial Transactions Tax and bank levies) on short term transactions is needed so as to prevent speculative behaviour and raise new sources of finance for the green economy.

Strengthening labour institutions
Governments need to take measures to protect freedom of association as well as reinforce social partnership structures with a view to expanding collective bargaining, linking wages to productivity and increasing minimum wages. The respect of ILO core labour standards should be a minimum for workers everywhere and states should provide the conditions for workers to join and form trade unions. Together with the implementation of social protection floors, strengthening labour institutions would raise sustainable aggregate demand and would create new jobs.

Labour standards are gravely affected by global trade and investment patterns. Therefore, seeking to create fair trade, international trade and investment treaties and agreements should guarantee the enforceability of national labour laws and internationally recognised core labour standards. The treaties and agreements could also include clear and enforceable responsibilities for foreign investors that apply along supply chains.

Achieving prosperity for all

In addition to increasing income inequality within countries, research shows that inequality is also increasing among countries. Most developing countries and least developed countries did not record any significant improvements in the livelihoods of their citizens in the last two decades. More importantly, countries with remarkable achievements in alleviating poverty utilised policies that facilitated structural transformation.

Policy space to become competitive
Countries with high levels of income and competitiveness are able to open up to global trade, attract investment and expand to markets where they can export. However, opening trade should not impede a country's capacity to add value or entrap the country in low-end processing. Countries and regions that are unable to withstand global competition, because industries and markets are yet matured, are ill-advised to liberalise trade in the pace of developed countries. Measures taken by 'success story' countries included controlling investment with requirements to joint ventures, foreign ownership ceilings and local content requirements; they used lax regimes for the protection of intellectual property and forced technology transfers; they built up state owned enterprises and conglomerates in order to create competitive products; and they maintained a higher level of tariffs compared to developed countries. Developing countries, and most importantly developing regions, must avoid giving up these national tools for structural transformation.

Maintaining policy space is one thing, making use of policies is another. Developing countries need to create partnerships, including with business, labour, academia and policy-makers, in order define policies that would generate state income, create jobs and promote investment—both public and private—in different economic sectors. Policies should target all economic activity ranging from extraction and agriculture to value added manufacturing and services. Structural transformation policies should aim at diversifying production, increasing intellectual content of goods and services (increasing value added) while at the same time guaranteeing constant improvement of energy efficiency as well as sustainable energy generation.

A Post 2015 Framework that ensures inclusive and sustainable macroeconomic policy should consider the following:

Target	**Indicators**
Taxation and financial re-regulation	❍ Tax authorities cooperation treaties ❍ Put in place and implement requirements for reporting of corporate profits ❍ Put in place and implement "too-big-to-fail" legislation ❍ Implement FSB Action Plan for regulating OCTs ❍ Collect FTT and bank levies
Strengthening labour institutions	❍ Ratification of the eight ILO Conventions on core labour standards ❍ Union density rate ❍ Collective bargaining coverage ❍ Minimum wage as % of median wage
Greening the economy	❍ Number of green jobs as % of total employment ❍ Investment in green economy as % of total investment ❍ National energy efficiency compared to a basis year ❍ Renewable energy generation as % of total energy generation
Maintaining policy space for and achieving structural transformation	❍ Income from extraction (loyalties, taxes) compared to a basis year ❍ Subsistence agricultural production as % of total agricultural production ❍ Value added exports as % of total exports ❍ Jobs created in selected high value added sectors compared to a basis year ❍ Investment in infrastructure (new and maintenance) compared to a basis year
Making trade and investment inclusive	❍ Number of economic and social impact assessments for number of new treaties and agreements ❍ % of FDI and domestic investment to GDP ❍ Jobs created by FDI and domestic investment compared to a basis year ❍ % of loans to SMEs as part of all loans ❍ % of loans to business as part of all loans ❍ Increase in R&D investment compared to a basis year ❍ Balance of payments and accumulation of foreign exchange reserves

Contact us!
International Trade Union Confederation
Development Cooperation & Education
Bd du Roi Albert II 5, 1210 Brussels, Belgium
email: dce@ituc-csi.org, phone: +32 222 40 225
www.ituc-csi.org/post-2015-development-framework