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BEYOND AUSTERITY:
TOWARDS A GLOBAL NEW DEAL

Chapter VII

TOWARDS A GLOBAL NEW DEAL



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A. Introduction

Much will have to change if the “inclusive economy” is to become a working reality, as argued in previous chapters of this *Report*. Today’s hyperglobalized world economy is delivering unfair and inequitable outcomes for far too many people in too many places. Economic and financial crises, like that of 2008–2009, are only the most visible manifestations of a world economy that has become increasingly unbalanced in ways that are not only exclusionary, but also destabilizing and dangerous for the future political, social and environmental health of the planet.

Previous chapters in this *Report* have indicated that these imbalances cannot be considered simply as collateral damage from technological changes or the spread of global market forces, but rather result from policy decisions and omissions, along with the roll-back of regulations and the decay of representative institutions. Above all, shifts in power relations and bargaining appear to have had a particularly pernicious bearing on the kinds of outcomes witnessed in recent decades. The imbalances, and the challenges they pose, can be found in both developed and developing economies, but even with the periodic growth spurts that have emerged under hyperglobalization, they are often accentuated in poorer countries by the traditional obstacles to sustained and shared growth associated with resource constraints, informal employment conditions and technological deficits.

United Nations initiatives such as the Sustainable Development Goals (SDGs) and the Paris Climate Agreement suggest a more hopeful future. But what is still needed is a supportive policy narrative to correct the imbalances that generate exclusionary outcomes, so that social inclusion goes hand in hand with economic prosperity, shared technological progress and a healthy environment. Unlocking the creative impulses of markets will be central to this task, but

controlling their more destructive tendencies is just as important. The notion that markets, left to their own devices, can deliver socially and economically optimal outcomes is a fallacy and should be dropped. The experiences of recent years – as during other major crises of the last century – are a powerful reminder that the State can and must reform and adapt markets at all levels to create an environment that can deliver growth and development for the population as a whole (UNCTAD, 2015a: 22).

This calls for more engaged States that are also more accountable. Across today’s increasingly interdependent world, the nation State still remains the basic unit of legitimacy and leadership, and one that citizens ultimately turn to for economic security, political loyalties and social cohesion. However, the capacities needed by the State to deliver these conditions have been eroded in many countries, thanks in part to the heightened power of mobile capital and the policy overreach of market fundamentalists. The subordination of political leadership to the management, accounting practices and narrow profit orientation of private business interests is raising fears that the public sector too often shoulders the risks while the private sector grabs the gains. There is potential to enhance the developmental impact of cooperation between the public and private sectors, but achieving this will require a clear distinction between private interests and the broader public good, and addressing the tensions that inevitably arise between the two.

If not, the difficult trade-offs and distributional choices that should be the subject of democratic debate and compromise are effectively ceded to unregulated or underregulated market processes and to the interests that benefit too frequently, leading to outcomes that are unfair, perverse and far from socially optimal.

These outcomes would not have been supported by the earliest proponents of market economies, such as the influential Adam Smith, who always insisted that the benefits of markets depended upon having true competition alongside a strong State (Smith, 1776), as well as strong ethical underpinnings (Smith, 1759). Today's development is troubling for not only undermining representative politics, but in the longer run threatening to undermine the legitimacy of the market itself by increasing the risks of a destabilizing backlash from those who consider themselves neglected by their elected leaders in favour of supposedly impersonal forces of market competition.

Much can still be achieved at the level of the nation State, as discussed later in this chapter, and typically that is the main locus of transformative development strategies (*TDR 2016*). But the integrated nature of the world economy inevitably places limits on national policies and their effectiveness. Many of the sources of exclusion and stratification can be traced to the international level, as hyperglobalization reproduces the same global patterns of growth as those observed within countries. At the same time, a number of tools needed for a more inclusive economy are constrained (and in some cases forbidden) by international rules and agreements. A balanced global economy cannot emerge if countries lack the policy space to leverage the potential benefits and mitigate the costs of international competition.

This makes greater international coordination an urgent requirement of any global new deal. It is essential for strengthening and revamping genuine multilateralism that is geared towards proactively promoting more and better quality employment, reinstating the regulations that previously afforded protection against speculative and misdirected finance, and making social welfare a universal right provided by governments, rather than being treated as just another commodity to be sold in the market. Thus, international coordination will need to be the underlying principle of any comprehensive and consistent policy agenda, so that national policy efforts can be supported, beggar-thy-neighbour approaches avoided, and the benefits of more inclusive growth shared fairly among all countries.

This may seem a tall order in the current geopolitical climate, especially after three decades of excessively unregulated and overly market-oriented economic and social policies. Indeed, it will clearly be a huge challenge for the international community. But

encouragement can be drawn from previous episodes in history when dramatic policy changes and coordination were undertaken, often very quickly and in ways that had not been anticipated even a short time earlier. The last century provides many instances of visionary leaders and practical policymakers successfully forging forward-looking paths when the world faced seemingly intractable challenges to the prevailing economic and social order. This chapter draws on such lessons from the mid-twentieth century: the New Deal of the 1930s, the Marshall Plan and the lesser known United Nations Conference on Trade and Employment which culminated in the Havana Charter for an International Trade Organization, both launched in 1947. Unlike the more limited rescue and repair efforts of this century, these initiatives profoundly shook up conventional thinking, and negotiated bold and generous schemes that both addressed the immediate problems at hand and planted seeds for longer term economic and social transformation.

In many ways, the current conjuncture is just as propitious for introducing an equally transformative agenda. The established order is under attack from both ends of the ideological spectrum, and its legitimacy has significantly diminished, as reflected in growing protests by the general public. In many parts of the world there is widespread anxiety that the current system is not delivering the results needed, and even fear that things may get worse. On the positive side, political momentum for change has been created by the SDGs – a negotiated agreement by all United Nations member countries for what is essentially the largest investment push in history. It is no longer an option to wait until the next crisis in order to mobilize the requisite political will and coordination; the goal now must be to harness this moment of consensus for delivering the required combination of resources, policies and reforms necessary for a more inclusive process and outcomes at both global and national levels.

This chapter draws on the lessons of the past to help sketch a new policy agenda that can help create more inclusive societies and economies. It argues that it is possible, and even necessary, to construct a global new deal that fosters proactive fiscal policies in different countries, along with coordinated strategies that address the triple challenges of large inequalities, demographic change and environmental problems. Section B focuses on some of the broad policy principles that emerged from earlier efforts to meet

the rebalancing challenge. Section C offers proposals for some policy elements of a global new deal, picking up on the issues raised in previous chapters.

A final section raises some fundamental institutional issues that will need to be addressed to achieve more inclusive and sustainable development in the future.

B. Back to the future? Some lessons from a not too distant past

The original New Deal proposed by President Franklin Roosevelt to the United States electorate in the 1930s¹ represented a concerted effort to repair and rebalance the United States economy and society in the aftermath of the Great Depression. Famously, Roosevelt offered a positive alternative to a fearful society, making job creation and social security the pillars of a more hopeful strategy. He abandoned the austerity policies that had promised a recovery through tax increases and cuts in government programmes, and offered instead recovery through enhanced government spending and targeted support for different regions and sectors (beginning with agriculture). This was to be made sustainable through strengthened regulation of markets, beginning with taming financial markets but more generally by managing competition. In addition, it was expected to deliver more inclusive outcomes through redistributive measures beginning with labour market reforms to protect workers, followed by progressive fiscal measures and welfare programmes. Recovery, regulation and redistribution became the bases of the New Deal.

As economic historians have pointed out, Roosevelt's break with austerity policies was initially short-lived, with a reversal in 1936; it was fully completed only with the surge of war-related expenditures from the end of the 1930s. But the degree of State intervention embedded in multiple programmes and institutions marked a fundamental change from the past – a vision of government, according to a leading New Deal architect, “equipped to fight and overcome the forces of economic disintegration ... to the realization of our vast social and economic possibilities” (Katznelson, 2013: 232). New Deal legislations and reforms not only made the State a more active agent in the economy, but also empowered and mobilized a wide range of interest groups that would counter the influence of traditional elites, support a mixed economy and underpin a new social contract.

While the New Deal represented a retreat from the idea of a self-regulating, automatic and impersonal international economic framework based on adherence

to the international gold standard and free trade, it would be misleading to portray it as a retreat into isolationism. Rather, efforts to manage competition at home had their international analogue in managed trade abroad. Indeed, while attempts throughout the second half of the 1930s to internationalize the New Deal were somewhat ad hoc, the urgency, ambition and voice that underpinned its domestic agenda were extended to the discussions of a new international economic and security order that led to the negotiations at Bretton Woods and Dumbarton Oaks. They also acquired a strong regional accent with the Marshall Plan, which remains one of most successful aid programmes in modern history. Its influence, albeit more contested, extended to the negotiations at the United Nations Conference on Trade and Employment which sought to promote openness by managing trade, and fostering full employment in the North and industrial development in the South.

Without going into the details of these domestic and international programmes, a number of common principles can be gleaned from these experiences, which are relevant to any contemporary discussion of a global new deal.

1. Speed, scale and generosity

One important lesson from these efforts is that, to be effective, policy changes should be rapid and of sufficient scale and generosity; slow and small incremental increases are likely to be less inspiring or transformative. The New Deal, for example, was driven by the urgent and pressing need to get large numbers of people rapidly into paid work, and to repair the United States' shattered economy. The Public Works Administration's \$3.3 billion spending programme in 1933 exceeded total private sector investment for that year (Patel, 2016: 79), and, along with the Works Progress Administration (a work programme for the unemployed), marked an abrupt reversal of the policy status quo of limited monetary and fiscal actions that had prevailed during the decade leading up to the

Great Depression (Kregel, 2017). Within just the first month alone, for example, 4 million jobs were created (around 10 per cent of the total labour force of the time), and by 1934 more than 20 million United States citizens (more than one in six) were receiving some form of benefit (Kelber, 2008). In fact “bold, persistent experimentation” was the hallmark of the New Deal, even when the extreme sense of emergency began to ebb and the Roosevelt Administration moved to consolidate the gains, thereby redefining the boundaries between the public and private realms to achieve more inclusive outcomes. This also meant reinventing State institutions, with 10 new federal agencies established between 1933 and 1939, compared with just 4 between 1940 and 1960 (Patel, 2016: 279). These operated on a changed relationship between State and citizen, with a greater emphasis on the State’s obligations to meet citizens’ rights.

The Marshall Plan, otherwise known as the European Recovery Programme, launched by the United States Government in 1947 to revive employment and economic recovery in post-war Europe, was also very quick to get started, and similarly generous in its scope and scale. As with the New Deal, at the core of the Marshall Plan was the idea that government direction was needed to help a reluctant (and in this case shattered) private sector back to the business of productive investment and job creation. The Plan was put together in weeks and implemented with impressive speed. By the end of five years, the United States had provided Western Europe with some \$12.4 billion, largely in the form of grants, amounting to slightly over 1 per cent of the United States’ GDP and over 2 per cent of its recipients’ GDP. Like their New Deal counterparts, the Marshall planners understood that large-scale public expenditure was needed to crowd in private investment, and they quickly put into place new institutions (the Organisation for European Economic Co-operation and the European Payments Union) as well as a framework of organizing principles intended to encourage policymakers to forge a new kind of social contract that would be radically different from the deflationary and divisive actions of the inter-war period (Mazower, 1998: 299).

2. Voice and counterbalancing power

It is important to point out that these major initiatives occurred through extended processes of negotiation and contested politics, which recognized existing power imbalances and sought to redress them. The

scale, speed and success of the New Deal does not mean that its path was easy. Each step involved a political compromise – the outcome of negotiations and trade-offs between the demands of workers’ organizations, businesses and agricultural groups, as well as the great mass of dispossessed poor.² Finance had been at the centre of the Great Depression, and its reorganization was key to the success of the New Deal. The measures introduced to tame finance marked a concerted attempt by the Roosevelt Administration to break with the “outworn tradition” of self-correcting markets, and it was the clearest demonstration that the State would employ a visible hand to counter the interests that had supported that tradition. They included initiatives aimed at weakening the strength of financial rentierism, such as the Glass-Steagall Act and the Securities Act (both of 1933), as well as the establishment of the United States Securities and Exchange Commission (SEC) the following year, to regulate the stock market and prevent abusive practices, along with the strengthening of antitrust laws.

In addition to measures to rein in powerful interests, legislative actions of the New Deal included government support to weaker groups in society by allowing them to negotiate better deals in a marketplace that was otherwise left substantially intact. Some commentators, such as JK Galbraith (1952), believed these institutional reforms that aimed to create social and economic balance were the most important aspect of the entire programme. This was most obviously the case with regard to legislation such as the National Labour Relations Act (1935) in support of collective bargaining rights for workers and trade union organizations (Levy and Temin, 2007). But equally important were laws that provided support to small farmers, consumers and citizens, such as the Social Security Act 1935, which granted universal retirement pensions and unemployment insurance. This process created a new middle class, and simultaneously encouraged middle-class taxpayers to identify with the less fortunate majority. At the same time, less developed areas of the country that had received the least government support in the past were included in national projects, such as the Tennessee Valley Authority (Rauchway, 2008). The combination of economic, regulatory and political actions was critical to the speed, scale and success of the programme.

Similar processes of balancing between various economic interest groups played out in the formulation of the Marshall Plan. Because of the damage to

European productive capacities and the great disparity of economic strength between the United States and war-torn Europe, the Plan placed a moratorium on foreign investment until European recovery was in full swing (Kindleberger, 1989). This was at least partly to prevent United States corporations from buying up German businesses, which would not have contributed to winning over the “hearts and souls” of future allies and trade partners (Kozul-Wright and Rayment, 2007). It also avoided a rapid and symmetric liberalization of trade and payments, based on the fear that a one-way flow of trade would provoke balance-of-payments crises in European countries. Instead, it allowed a gradual dismantling of the wide range of direct and indirect controls on trade over a period of eight years. This gave European producers some protection against competition from the United States. At the same time, the United States agreed to a more rapid opening up of its own markets to European products – a policy of generous and asymmetric liberalization that favoured the weaker partner even as it kick-started growing markets for United States exports. Addressing the international interdependence of national economies was a priority for both Roosevelt and the Marshall Planners, more so than it seems today, even though economies are now more deeply integrated and interdependent.

More generally, individual countries were expected to design their own policies and strategies for industrial regeneration, respecting the fact that recipient countries were better informed about their situation than outsiders. This fed into subsequent approaches to multilateralism. Thus, not only was the Bretton Woods Agreement designed to provide the policy space and international stability needed to pursue New Deal-type agendas, but those negotiations were heavily shaped by negotiators and initiatives with New Deal roots (*TDR 2014*; Helleiner, 2013).

3. Cooperation and coordination

None of these initiatives would have been successful without significant cooperation and coordination at different levels between governments and other actors. The New Deal was an integrated agenda that required considerable coordination across programmes and institutions at both local and national levels of the United States. This was exemplified by the Tennessee Valley Authority, which combined economic, social and environmental goals and brought in different agencies to work together to revitalize a previously

neglected part of the South. A similar approach was adopted in programmes of the Agricultural Adjustment Administration, the National Recovery Administration and the Resettlement Administration, albeit with varying degrees of success.

This focus on integrating different policies through cooperation also transposed to the international level. The Marshall Plan, from the outset, recognized that delivery on its economic and political goals would depend on regional cooperation and unity. Such a framework was essential when transboundary issues were involved, in order to avoid failure that could stem from externalities, economies of scale and the challenges of merging different national systems such as interregional transport and energy. A special regional body was created to coordinate the plan. Peer review of national programmes gave national policymakers a regional perspective that would otherwise have been lacking, while also encouraging a culture of regular contact and cooperation among national bureaucracies within the region (Kozul-Wright and Rayment, 2007).

The United Nations Conference on Trade and Employment, like the Marshall Plan that started at more or less the same time, drew on the New Deal’s premise that boosting aggregate demand to support full employment was central to achieving a stable and inclusive world economy, and that, given the degree of interdependence, policy coordination and sharing (e.g. of financial, technical assistance and managerial skills) across countries was essential. Since it included a large number of developing countries, it was more focused on the challenge of structural transformation than on reconstruction. The Havana Charter³ that it negotiated represented an ambitious effort to create a multilateral trade organization that was envisaged to be the third leg to the Bretton Woods institutions of the World Bank and IMF (Graz, 2016). However, interest in the Charter eventually dropped, as the United States Congress was already moving away from the more activist ambitions of the New Deal. Nonetheless, it remains instructive as an example of a coherent and cooperative approach to address concerns that are remarkably similar to those of today, including structural constraints on job creation, crisis-related unemployment, low investment and weak aggregate demand. Specifically, the attempt to establish a mutually compatible set of policies blending closer trade relations with recognition of the need for State intervention in both the domestic sphere and in sectoral aspects of international trade provides many important lessons for our times.

C. Elements of a global new deal

These historical examples emphasize the importance of ambition and the need for a coordinated approach, which, together, can work to transform both economy and society in the face of what seem like insuperable odds. A high level of international ambition is already evident in the very formulation of the SDGs, but what is required now is a programmatic understanding of how these goals are to be achieved, along with clear fiscal and regulatory commitments that encompass both the national and international levels. Just as in the past, today's global new deal will have to face the challenge of reclaiming and renewing the public sphere in ways that offer an alternative to the short-term, predatory and, at times, destructive behaviour of deregulated markets that is increasingly provoking a popular backlash. Achieving this will require a more proactive State, but it will also mean empowering non-State actors to better mobilize and direct productive resources, and to establish levels of cooperation and coordination to match the ambition required.

Three interconnected elements – recovery, regulation and redistribution – remain at the heart of any attempt to forge more inclusive and sustainable growth and development paths. This section elaborates on each of these elements, bearing in mind both the lessons from successful initiatives of the past and the insights into technology, labour markets, financial markets and the nature of corporate power provided in earlier chapters.

1. *Recovery: Ending austerity and the significance of increased public spending*

The growth and productivity slowdown in developed economies has intensified existing inequalities, raised the threat of further shocks and crises, and dragged down future growth prospects in those economies. It has also begun to damage growth prospects in the South. Part of the problem is that recent recovery strategies in the North have been based almost exclusively on loose monetary policies, which in turn have spilled into asset booms (and busts) in developing countries, even as they have failed to boost capital formation and generate sustained growth in the developed countries. Indeed, as chapter I indicates, expansionary monetary policies have been accompanied in many cases by tighter fiscal policies, based on the premise that fiscal austerity is inherently desirable

even in countries that are not facing public debt or balance-of-payments problems, or inflationary pressures. This attitude has also permeated policymaking in developing countries, causing governments to tighten their spending more than is warranted by their specific conditions.

Since the global slowdown has a significant demand-side dimension, policies that favour reducing labour costs and public spending will, in fact, make matters worse. They will also prove inadequate to deal with the multiple challenges of inequality and lack of sustainability generated by current economic patterns. Ending austerity therefore remains a basic prerequisite for building sustainable and inclusive growth paths. This means that there should be a greater willingness in both developed and developing countries to use proactive fiscal policy to manage demand conditions and aim at full employment as one of the central goals of macroeconomic policy. This is necessary to move countries out of what some perceive as “secular stagnation”, but which, in reality, is more a collective failure of policy leadership and imagination (Wren-Lewis, 2017).

This shift necessarily requires more public spending to address five interconnected imbalances: inadequate and insecure employment; increased inequalities and income polarization; uneven development, including the failure to uplift backward regions along with the emergence of newly depressed regions; demographic pressures relating to ageing and young societies; and environmental stresses, due not only to climate change but also to pollution, degradation and over-exploitation of natural resources.

(a) Full and decent employment

An explicit focus on generating good-quality employment is necessary for economic recovery, redistribution and future social sustainability of the growth trajectory. In both developed and developing economies, a high level of employment is clearly one of the most important ways of mitigating inequality and alleviating poverty, as it raises wage incomes, boosts aggregate demand and counters deflationary pressures. In addition, decent work, which has social, civic and creative implications, is an essential plank of an inclusive society. Also in the context of insufficient global aggregate demand, a full-employment agenda is necessary for revitalizing and rebalancing

world trade and fending off protectionist threats (*TDR 2016*). In the case of developing countries, UNCTAD has consistently argued that strengthening domestic demand should be given as much attention as boosting exports when building a balanced development strategy.

All this provides justification for reviving the idea of the State as “employer of last resort” (Minsky, 2013). This is urgent, given current levels of unemployment and underemployment throughout the world,⁴ and the informal and precarious nature of much of existing employment. With too many people chasing too few good jobs (as discussed in chapter IV), not only is it taking longer than ever for job-seekers to find work, but the kinds of jobs they eventually find do not seem likely to support more stable and inclusive communities. Even where unemployment rates have declined, good jobs are in short supply, long-term unemployment, disability and drop-out rates remain stubbornly high compared with pre-crisis levels, and youth unemployment is a persistent problem (Blanchflower, 2015; ILO, 2017). As discussed in chapters III and IV, this is related not so much to technological change, per se, as to macroeconomic strategies that hamper more rapid employment generation in other activities.

In addition to direct employment, considerable indirect impacts on employment and output can be achieved through public spending more generally, which has much stronger multiplier effects than other forms of stimulus such as tax cuts (Mineshima et al., 2014). Spending (as opposed to tax cuts) was an important contributory factor in the fiscal expansion in the United States associated with the New Deal, as also in countries that were beneficiaries of the Marshall Plan. In the current context of weak demand in most individual economies and the global economy as a whole, this should become the single most important ingredient in public policy for employment creation.

However, the type of public spending matters, not only for its welfare implications but also for its macroeconomic impact. Government spending on social services, in particular in care activities that are typically underprovided by the State in most countries, generates much higher multiplier effects on employment: on average it generates three times the number of jobs than investment in construction in developed countries (ITUC, 2016), and nearly double the jobs in developing countries (Women’s Budget

Group, 2017) for the same amount of investment. It also has the important effect of improving the quality of life of citizens, especially when the goals are the universal provision of good-quality public services and the creation of both social cohesion and buy-in of the population whose tax payments would help fund such expenditure. It can also be crucial in reducing inequalities, not just across income groups but also across gender and other social categories (see chapter IV).

In addition to a general increase in government spending on physical and social infrastructure, specific public employment schemes can be very effective, especially in low-income countries, where much of the workforce is engaged in informal and self-employed activities. In recent years, some countries, such as Argentina, India, Sierra Leone and South Africa, have introduced public employment schemes based on the concept of “employer of last resort”.⁵ Although limited in scope, these have served as important countercyclical buffers and macroeconomic stabilizers, in addition to their obvious anti-poverty effects. The multiplier effects of such spending are also generally high, since the wage earnings from such work are typically spent on consumption, so that they generate even more indirect employment.

In order to maximize the “bubbling up” benefits of such spending and boost aggregate demand relatively quickly, public expenditure on job creation is best directed to the regions, places and activities where unemployed persons and poor households can best benefit (Minsky, 1965; 2013). This would suggest taking “workers as they are” and providing jobs tailored to their current skills and abilities, while including training and retraining as part of the programmes, instead of only providing training for jobs that might subsequently become available (Minsky, 1965). This may be particularly well-suited to some work programmes where training can be provided relatively fast (e.g. pollution clean-up, infrastructure repair, reforestation and care-related activities). The added advantage is that such an approach is likely to benefit from popular support. Meanwhile, multilateral initiatives should at the least ensure that there are no impediments to national governments expanding public employment or procurement. This is particularly important in the context of the explicit or implicit constraints on such employment promotion in international trade and investment agreements.

Ending austerity and boosting employment should help to begin rebalancing the unequal division of national income between capital and labour. In one way or another that still depends on ensuring that workers have an effective voice and representation. However, it is also important to foster institutions and processes that can encourage cooperation between workers, employers and governments, so that productivity growth translates into commensurate increases in earnings (*TDR 2010*: 137). A more ambitious agenda could include incomes policies that help boost demand and create outlets for private investment, while also having positive impacts on labour productivity. Since increased levels of activity and employment are known to foster productivity, this can create a virtuous circle of demand and supply expansion that provides the basis for future sustained, non-inflationary growth (*TDR 2013*, chap. I).

Treating employment as a top priority immediately changes the way policymakers consider other policies that also have a bearing on inclusiveness in economic development. Instead of premature financial liberalization, a heavy reliance on interest rates and very low inflation targets to manage capital inflows and the balance of payments, a judicious combination of fiscal policy, capital controls and exchange rate management can help attract the right kind of productive external finance, while also encouraging domestic investment. In addition, central banks can and should do more than just maintain price stability or competitive exchange rates to support development. This raises the issue of just how “independent” central banks should be (*Economist*, 2016; Munchau, 2016). For instance, they could use credit allocation and interest rate policies to facilitate industrial upgrading and provide strong support to development banks and fiscal policy, as has been done by central banks in many of the rapidly industrializing economies. In any case, the important point that should now be clear from a cross-country analysis covering the past few years is that monetary policy alone is not enough; a broad menu of proactive fiscal and industrial policies is essential for generating the structures and conditions that support the expansion of aggregate demand and domestic productivity growth. As long as loose monetary policy remains a major component of the policy toolkit, it should be increasingly directed towards boosting public expenditure rather than being directed to improving the balance sheets of commercial banks.

(b) Infrastructure spending for regional regeneration

A spatial dimension to economic inequality has also emerged (or intensified) in recent years. This refers not only to differences across national boundaries, but also – and sometimes even more importantly – within countries. The resultant problems have been well known in developing countries for some time, particularly with respect to their neglected agricultural and mining regions. But, increasingly, it has become evident that there are also significant regional differences in developed economies as well, often because of neglected or distressed regions where earlier forms of employment are no longer viable, such as in the hollowed out rust-belt and coal-mining communities of the United Kingdom and the United States, that consequently have become hotbeds of political discontent (Meyerson, 2017; Hazeldine, 2017).

Clearly a combination of measures – macroeconomic, industrial and social – is needed to overcome this problem, but increased public spending in such regions should be a major component of any coordinated effort. One of the less discussed but particularly effective elements of Roosevelt’s New Deal was its investment in public works in deprived regions. At that time it was specifically designed to lift the economies of the southern and western regions of the United States closer to the national norm. Similarly, in China over the past two decades, a substantial push for public infrastructure and other spending in the hitherto neglected western and central provinces played a crucial role in reducing regional disparities in levels of development and per capita income (Huang, 2012; Salidjanova, 2013).

(c) Turning the demographic challenge into an opportunity

Because of rising life expectancy, the world as a whole faces the prospect of many more people living much longer. At the same time, some developing regions have burgeoning youth populations for whom employment prospects are limited. This demographic pattern highlights the growing importance of care activities not only as socially necessary, but also as a likely future source of employment of people of working age (caring for the young as well as the elderly). Moreover, women’s increasing labour force participation further raises the demand for paid care services which are mainly undertaken by women.

An important feature of care work is that, because of its relational nature and the associated flexibilities required of workers, even in its most “unskilled” form, it is never likely to be “routine”, and will generally require cognitive inputs and responses. For this reason, technology can never replace human engagement completely, even if it can assist in reducing the drudgery of some care activities and facilitate others. Precisely because of its continuing relational and interactive nature, the care economy is likely to expand at a faster rate than many other economic activities. However, only part of this expansion would be automatically delivered by market processes, and there is little likelihood that such employment would be of good quality. Therefore, expanding public investment in care is necessary, particularly in ways that enhance the quality and conditions of paid care work.

It would likely yield larger multiplier effects in terms of aggregate employment increases, and create the foundations for a more sustainable growth process over time.⁶ Such spending could also contribute to other positive outcomes, such as reducing gender inequality and relieving urbanization pressures, as well as responding to other social changes, including the erosion of extended families that makes formal provision of child care and elderly care a necessity.

This is a global issue as well as a national one, because many developed countries depend on care service providers from developing countries. Moreover, the working conditions of these migrant workers often tend to be precarious, unregulated and exploitative. A good start to forging a more inclusive economy would be to formalize this work, and include globally portable insurance and pension schemes that give migrant or expatriate workers similar social assurance coverage as the people for whom they are caring.

(d) Tackling environmental problems

Climate change mitigation and adaptation will require massive investments across energy, transport and food systems. While innovative sources of finance have been considered, private investment alone will not be sufficient; ambitious and urgent public action will also be needed (United Nations, 2009). Restructuring State energy subsidies – estimated at over five trillion dollars worldwide – away from fossil fuels and in favour of renewables would be an obvious place to start (IMF, 2015). Apart from

subsidies and various other incentives offered to private investment, more directly effective would be public investment in ways that reduce carbon emissions. Research concerning the United States (Pollin et al., 2014) and several developing countries (Pollin et al., 2015) has shown how “green” investments can lead to large-scale increases in job opportunities, as well as new opportunities for alternative ownership forms, including various combinations of smaller scale forms of public, private and cooperative ownership. In many developing countries (as well as developed ones), people are already being affected by the impacts of climate change, but the available infrastructure for coping with them, or the investments required to build resilience and the avenues for alternative livelihood generation in the face of such changes, are woefully inadequate. Thus there is clearly a need for significant public spending in a range of related areas.

Climate change is only one of the environmental challenges facing countries, especially developing countries, and in many of them the pressures of pollution and environmental degradation are currently enormous. Patterns of expansion in some of the fastest growing economies, such as China and India, have created massive problems of atmospheric and water pollution that are already adversely affecting living conditions, morbidity and mortality. In addition, rapid urbanization in developing countries is associated with inadequate urban planning and poor provision of basic amenities, and the associated unsustainable patterns of production and consumption are giving rise to even more environmental concerns for the future. All this requires not just greater regulation, but, even more importantly, more public investment to mitigate the worst effects of pollution and reduce such damage in the future.

2. Expanding fiscal space

Advocating substantially greater public spending is obviously irresponsible without considering how it is to be financed. Therefore, strengthening government revenues is key to a global new deal. Fiscal space is both a cause and an effect of economic growth and structural change. Higher average income levels and an expansion of the modern sectors of the economy not only bring more of the informal economy into formal regulatory structures; they also broaden the tax base and strengthen governments’ capacities to mobilize fiscal revenues. This in turn enables higher

BOX 7.1 Financing a global new deal

How could a coordinated global stimulus, or a version of the Marshall Plan on a global scale, involving large public expenditures that crowd in private investment be financed? While borrowing is an option in many countries that have sufficient fiscal headroom, that option alone may not be adequate. In any case, in a world dominated by finance, debt-financed public expenditures would face considerable opposition.

However, greater public borrowing (though not to be shunned in specific circumstances) is not the only or principal option. Given the evidence-based consensus that the last few decades have seen a substantial increase in inequality, even while taxation rates have fallen and tax exemptions have risen, resource mobilization through additional taxation of the top income earners is an obvious possibility. In this sense inequality is as much an opportunity as it is a challenge.

To estimate how much could be collected by taxing the richest segments of the population, one can estimate the incomes that accrue to the relevant fraction of that population (top 1, 5 or 10 per cent), and then estimate the effect of an average additional tax on their incomes. It could include assuming that, even within the relevant range, some progressivity is maintained, especially in countries where the threshold income for the specified range is not very high. Thus, for example, an average tax on the top 5 per cent could be distributed such that the top 1 per cent pays a higher rate than those in the fifth percentile.

Taking data for 43 countries that either belong to the high-income OECD countries or those that are not OECD members but are part of the G20, the GCIP database (referred to in chapter V of this *TDR*) provides information on the share of the top income quantiles (Lahoti et al., 2016). Combining this with the GDP data in United States dollars for 2015, it emerges that the total income of the top 10 per cent in each of these 43 countries in 2015 was \$19.7 trillion.^a Adding an additional average tax of just 5 percentage points in that group of countries alone would yield around \$0.98 trillion. This compares with \$130–\$135 billion (in 2015 prices)^b spent on the Marshall Plan for Western Europe in the mid-twentieth century.

Such a proposed 5 per cent additional tax on the richest 10 per cent in this set of countries has to be seen in the light of major direct tax reductions offered in most countries during the hyperglobalization era. From 1971 to 2008, the highest marginal tax rate fell from 70 per cent to 35 per cent in the United States, from 53 per cent to 45 per cent in Germany, and from 61.2 per cent to 53 per cent in France. As Atkinson (2016) has shown, there is a very strong relationship between the amount top earners retain from every extra dollar they earn and levels of income inequality. Reversing this even partially could substantially help finance a global new deal.

There are other options as well. In some countries, wealth and inheritance taxes have been substantially reduced or even eliminated altogether: inheritance taxes or estate duties have been abolished in Australia, Austria, Canada, India, Norway, Sweden, Mexico and Portugal, for example. Even a relatively small tax of this kind could be a significant source of revenue in the context of the growing amounts of inherited wealth.

In sum, as this simple exercise illustrates, financial constraints need not be an obstacle to a global new deal.

^a GDP data are from <https://www.un.org/development/desa/dpad/publication/united-nations-global-policy-model>.

^b Estimated using the figure of more than \$12 billion spent on the Marshall Plan (Office of the Historian, United States Department of State, available at: <https://history.state.gov/milestones/1945-1952/marshall-plan>) and the official consumer price indices of the United States for 1947 and 2015 (see: <https://www.minneapolisfed.org/community/teaching-aids/cpi-calculator-information/consumer-price-index-and-inflation-rates-1913>).

growth-enhancing public spending, both on the supply side, through investment in infrastructure, research and development, and health and education, and on the demand side, through universal provision of good-quality public services and social transfers.

At present, much of the strategy for augmenting State revenues relies heavily on indirect taxation,

which is inherently regressive and can exacerbate inequality if the poor and less well-off are not compensated through public spending that enhances their access to goods and services. However, it is possible for governments to widen their fiscal base through domestic efforts, including higher taxes on property and other forms of rents, and, equally importantly, in progressive ways that do not increase inequalities

(*TDR 2014*). Indeed, relatively small changes to the income tax structure for the top earners could generate fiscal revenues on the kind of scale needed to finance the investment push required by a global new deal (box 7.1). However, corporate tax rates have been on the decline in developed and developing countries alike, often accompanied by subsidies or exemptions to attract or retain foreign investment. Yet there is little evidence to suggest that this has been good for capital formation or for economic growth (see, for example, Ljungqvist and Smolyansky, 2014). While reversing this trend may well be appropriate, it may not be necessary to increase tax rates if strong and effective measures are taken to reduce exemptions and remove loopholes that allow corporations and rich individuals to avoid or evade tax. It is possible to legislate for the adoption of a general anti-avoidance rule so that “aggressive” schemes which exploit loopholes in the existing law can be declared illegal when challenged in courts (UNCTAD, 2014).

Other innovative measures have been proposed that could boost fiscal revenues and help redistribute wealth or income. These include an annual wealth tax (Atkinson, 2016), a “social dividend” or “sovereign wealth” fund based on taxing the returns to capital (as opposed to the returns to labour), taxing the rents from intellectual property rights (IPRs), or acquiring shares in publicly supported companies or from initial public offerings in key sectors. All of these could help rebalance the distribution of benefits between businesses and the wider society, and would reflect society’s investment in those businesses (Atkinson, 2016; Varoufakis, 2017).

A major challenge is that hyperglobalization has weakened the ability of governments to mobilize domestic revenues as a result of the lowering of tariffs, the increased mobility of capital, illicit capital flows and the greater use of fiscal havens (*TDR 2014*). On the other hand, it is likely that governments have overestimated the need to offer incentives to attract and retain investment (Keen and Mansour, 2009; *TDR 2014*, chap. VII). It is also encouraging that there have been a number of recent initiatives aimed at improving transparency and exchange of information for tax purposes. Further efforts, such as a global financial register that would record the owners of financial assets throughout the world, and the adoption of public registers of the beneficial ownerships of companies, would be an important step forward (Zucman, 2015). Reporting on the country-wise distribution of core financial company data, including taxes paid, would also be important,

since it would enable cross-country comparisons and the detection of mismatches (Murphy, 2012).

While these initiatives would be steps in the right direction, they would only be effective if they are efficiently implemented and enforced. This is particularly so with regard to abuses relating to transfer pricing that are extremely harmful for developing countries, and where international companies have been well ahead of regulators. Genuine and coordinated efforts to reduce base-shifting and transfer mispricing by global corporations should be strengthened, as these practices account for billions of dollars worth of foregone fiscal revenues that could otherwise be directed towards productive investment in public goods and services (Leite, 2012). Advance price agreements are another area of growing interest, since these allow tax authorities to review a firm’s transfer pricing in advance rather than through costly ex-post audits. However, since developing countries seriously lack capabilities in this and similar areas, more systematic cooperation and information-sharing between developed and developing countries’ tax authorities are necessary.

More generally, because policy and best practice initiatives are mostly led by developed economies – which are still the most significant home countries of multinational corporations, and remain among the leading secrecy jurisdictions, despite recent initiatives to tighten controls and improve transparency – there needs to be a more balanced inclusion of the voices and needs of developing and transition economies in international discussions and initiatives. At the same time, the influence of sophisticated lobbyists and interest groups on national and international policymaking needs to be more explicitly recognized, and countermeasures adopted. In pursuing this agenda at the international level, it will be important to give a more prominent role to monitoring institutions such as the United Nations Committee of Experts on International Cooperation in Tax Matters, but also to adopt a fully multilateral convention against tax avoidance and evasion.

3. Regulating rentier capitalism

(a) Taming finance capital⁷

It is not only financing for public spending that requires a stronger push; significantly higher levels of productive investment are also needed in most developing countries in order to enable a sustained

recovery with more inclusive employment. Yet recent investment rates are well below expectations in some developing countries, and have even been falling; they are also falling in most developed countries. This points to one of the main paradoxes of hyperglobalization, that despite a singular emphasis on establishing an investment-friendly business environment, very few countries have been able to increase their rates of capital formation; and in those that have succeeded in doing so, market forces on their own have not been relied on to generate the required financial resources, nor to direct them in the most productive manner.

In a healthy investment climate, a large proportion of capital accumulation is typically financed from retained profits, often in a symbiotic relationship with long-term bank lending. A worrying feature of hyperglobalization is the breakdown of the nexus between profit, credit and investment. This has been particularly pronounced in the most financialized developed economies, but increasingly it is also apparent in emerging economies (*TDR 2016*). The extent to which the rich save and invest their incomes in productive assets can, of course, vary considerably among countries, depending on how profits are generated and how much of these are retained and spent productively. If profits are siphoned off into luxury consumption or financial assets, as witnessed in recent years, the investment linkages required for inclusive development will be weak or missing.

Despite the primacy of finance in the era of hyperglobalization, private financial institutions have often failed to provide credit on a sufficient scale or on appropriate terms or, indeed, to the kinds of investors that would create productive and job-generating enterprises as opposed to investing in real estate or speculation. Far-reaching reforms have been proposed from many quarters since the financial crisis, but have met with strong, and largely successful, resistance from the banking and finance lobbies. Ongoing efforts to strengthen prudential regulations by raising capital and liquidity requirements are welcome, but not sufficient; also needed are structural reforms that focus both on financial stability and on developmental and social objectives. These include regulations defining which activities different kinds of banks are allowed to perform. Meanwhile, the Basel regulations remain too dependent on self-assessment by large banks, and their framework was not conceived with the particular needs of developing countries in mind. They aim to harmonize national regulations and

avoid regulatory arbitrage across countries hosting large and complex, internationally active financial institutions, but they do not focus on the challenge of encouraging the kinds of lending practices that may be required for industrialization and financial inclusion. In addition, much more concerted efforts will be needed to regulate the financial industry's use of the kinds of "toxic" financial products that have been a persistent source of financial instability. This will mean addressing the highly concentrated market for credit rating and the potential conflicts of interest between the agencies that dominate that market and the shadow banking institutions that have allowed toxic products to flourish. As noted in chapter V, capital controls are required at the national level in specific circumstances, but these need to be combined with other measures to regulate the structure, size and governance of banks and other financial institutions operating internationally.

A financial system that accords a more significant role to public banks of various kinds and to smaller private banks with limited political influence and stronger regulatory oversight is less likely to generate speculative excesses, boom and bust cycles and austerity. It is also more likely to provide security for people's savings, mobilize resources for productive investment and extend credit for employment creation. In addition, it should help improve the information flows needed to formulate regulations that keep pace with innovations (Chandrasekhar, 2008). Development banks can play a potentially prominent role in supporting the profit–investment nexus in developing countries by filling financing gaps in the form of credit provision at near-commercial rates on a general basis and on more favourable terms for selective sectors, as well as providing other investment support services (*TDR 2016*).

Multilateral institutions' financial resources should be increased in line with the growth of cross-border transactions, bringing them to a level sufficient to enable them to undertake effective countercyclical financing and to deal with payments difficulties that might emerge on a country's capital account. The recent tripling of IMF funding marks progress in this direction, but, as discussed in previous *TDRs*, it is also necessary to move towards more reliable and less politicized ways of creating international liquidity.

Multilateral development banks, both old and new, should support greater infrastructure lending as well as ensuring the provision of trade finance, particularly

during crises. In addition, they can play a constructive role in the development of local bond markets, and devise more innovative mechanisms to combine public and private resources in support of developmental and socially inclusive goals (Griffith-Jones et al., 2008). Existing institutions with a strong regional focus might be complemented by more specialist financing agencies in areas such as agricultural development or climate finance (UNCTAD, 2016). These institutions should also have the capacity to take initiatives in financing projects that are developmental, rather than following the choices made by commercial banks. For example, development banks could favour projects with greater employment-generating potential, or seek positive opportunities for public procurement in major infrastructure projects. Funding for these institutions could come from increased national tax revenue (as discussed in box 7.1), a dedicated international tax (such as a financial transaction tax) or an international bond issue (Varoufakis, 2017).

Because stable, affordable and long-term finance remains a constraint on sustainable and inclusive growth in many developing countries, particularly the least developed countries (LDCs), upgrading the development cooperation agenda in line with the ambitions of the SDGs will necessitate not only meeting the 0.7 per cent target for official development assistance (ODA), but also refocusing aid programmes in ways that enable recipients to mobilize their own resources for development as quickly as possible (UNCTAD, 2006). Moreover, ODA should not be diverted from core development purposes to fund additional and broader areas of concern, such as combating climate change, which should be funded by other sources (UNCTAD, 2016).

A global new deal will need to tackle the economic and political threats that have accompanied the massive accumulation of sovereign debt during the era of hyperglobalization. Currently, the system of sovereign debt restructuring is based on ad hoc arrangements, and is thus highly fragmented. Recent efforts to improve the legal underpinnings of debt contracts are welcome, but a more balanced approach to sovereign debt restructuring is needed. This should include principles to better guide and coordinate the restructuring process as a stepping stone to an international bankruptcy process which would prevent the economic and social damage caused by a default. It should involve establishing a set of statutory procedures that facilitate relief restructuring and recovery in the best interests of both creditors and debtors.

(b) Contesting corporate power

Efforts to clamp down on corporate rent-seeking behaviour are necessary, both to bring about more inclusive outcomes and to create a healthier investment climate. At the national level, competition and antitrust policies have been watered down considerably. The result (as noted in chapter VI) has been an unprecedented growth in corporate market and lobbying powers, which now threatens economic stability and the future of economic globalization, and is dubbed by the Chicago economist, Luigi Zingales (2017) as the “Medici vicious circle”. Corporations have gained rights at least equivalent to those of citizens, but have avoided charges of criminalization of activities that would be deemed illegal when pursued by citizens (Eisinger, 2017). Consequently, competition policy, and, more generally, measures aimed at curtailing restrictive business practices, should be designed with an explicit distributional objective.

Much of the regulatory structure dismantled under hyperglobalization needs to be restored and updated. A starting point might be the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices adopted by the United Nations General Assembly in 1980. These paid particular attention to the interests of developing countries with respect to price fixing, collusion, transfer pricing, and the more generally predatory behaviour towards competitors and abuses of dominant position (Muchlinski, 2007). Since then, increasing concentration at the top end of global value chains and heightened competition at the bottom end have further intensified, and may require a new institution, such as a global competition observatory, to monitor trends in international markets (*TDR 2016*). There are encouraging signs that some developed-country governments may be rethinking their approach to competition issues and policies. For instance, European Union regulators slapped a record fine on Google in June 2017 for abuse of its dominant position as a search engine, and the European Commission is considering a generally more proactive stance to curb market power and corporate abuses (Toplensky, 2017).

Another policy essential for supporting the development of inclusive economies is to revisit bilaterally and regionally negotiated restrictions on the sharing of knowledge and IPRs that are more onerous and constraining than multilateral agreements such as those negotiated under the aegis of the World Trade

Organization (WTO). Some of these agreements contain many more provisions on IPR issues (83 in the Trans Pacific Partnership Agreement compared with 21 in the North American Free Trade Agreement), including extending IP protection to new uses of known products and new methods of using a known product. Many of them deal with a broad range of areas, such as public procurement, new investment issues and disputes between corporations and States, while some of them also extend regulatory coverage to new areas, such as e-commerce, harmonization in the pharmaceutical sector and digitalization (Gehl Sampath and Roffe, forthcoming).

Corporate influence in shaping rules and policies is nothing new, but it has increased markedly over time.⁸ It is particularly problematic when trade negotiations take place in an opaque or secretive manner. These power asymmetries are especially evident in investor-State dispute settlement processes, which are now included in thousands of bilateral investment treaties, and which allow foreign investors to challenge national laws and policies but do not grant the same right to national firms or citizens. This is increasingly recognized in the broad discussions led by the OECD, UNCTAD and, more recently, also the G20, which emphasize the need for a more balanced approach to the right to regulate at national levels and to the kind of FDI that should be encouraged to promote sustainable development. Numerous reform proposals are currently under consideration, including improved investment principles that foster sustainable development (UNCTAD, 2015b), the creation of a more independent (and legally sound) investment tribunal along with an appeals mechanism (European Commission, 2015), and a greater reliance on national laws (UNCTAD, 2014).

4. The redistribution challenge and transformational social policy

This *Report* has suggested that piecemeal approaches are unlikely to meet the SDG on reducing inequality, nor indeed in responding to the dissatisfaction and anger of many people and communities across the world. Comparing the present situation with that of the 1930s, what is notable is the extent to which today's high-income earners have preserved, or improved, their position. Indeed, hollowing out of the middle and polarization of the tails appear to be systemic features of hyperglobalization, whether at the macro and micro levels, or the national and

international levels. These concerns with rising inequality could be addressed through policies, regulations and institutional reforms that focus on some key areas such as employment, market concentration and wage determination.

Labour market interventions, including minimum wage legislation, are crucial, for achieving not only social policy goals (i.e. reducing poverty and gender discrimination), but also macroeconomic goals such as higher employment levels and reduced income inequality. This is scarcely surprising given the additional employment resulting from the income multiplier effects of the higher demand generated by such wage increases.

However, creating more inclusive economies and societies also requires directly tackling various forms of discrimination, including by gender and other social categories, by means of proactive social policies. Hyperglobalization, to the extent that it has contributed to a slowdown in productivity growth, greater inequality and the erosion of national fiscal space, has placed added pressures on the provision of welfare. However, these pressures are not qualitatively different from the past, and the fundamental problems remain the lack of political will and support, collective solidarity and policy ambition (Glyn, 2006; Atkinson, 2016).

Under hyperglobalization, the main objective of social policy has been narrowly conceived as the provision of support and protection targeted at the chronically poor and most vulnerable, or, more recently, as a matter of social risk management in the face of unforeseen shocks.⁹ Various market-friendly measures have been undertaken along these lines, mainly by a growing number of non-governmental or not-for-profit organizations. The influence of market forces on the provision of public services, including through cash transfers, can become especially unbalanced if the services are financialized. For example, privatization can dilute the social priorities of utility companies through the imposition of fees (e.g. for sanitation) or other restrictions on use (e.g. relating to health-care services or water supply), or it can subject the providers to the vagaries of the stock market and the threat of takeover, with the attendant pressures for subcontracting, downsizing, break-up, investment cutbacks, or deterioration of standards of service in order to enhance short-term profitability. The new emphasis on cash transfers, as opposed to public spending on public goods and services, has

also encouraged households to seek private sector alternatives, even as both the quality and quantity of State provision have been reduced. This reinforces the dynamic towards the commercialization of such services on the basis of loans made available to ever wider strata of society (Lavinias, 2013).

For social policy to be transformational, however, it must go beyond offering simply a residual category of safety nets or floors designed to pick up (or stop falling) those left behind; equally importantly, it needs to address the economic structures, processes and norms of social and economic exclusion by giving greater attention to economic production, reproduction, redistribution and social solidarity. The mere fact of providing some degree of social protection or welfare to those in greatest need does not make society more “inclusive”; indeed, quite the opposite: evidence suggests that social policies which are designed and targeted to help the poorest or the most needy are typically less inclusive than those that are universal and that seek to overcome problems of both unwarranted exclusion and unjustified inclusion (Mkandawire, 2005; Le Grand, 2006; Atkinson and Stiglitz, 1980). Social and economic outcomes tend to be more equitable in societies that pursue universal policies than in those that rely on means-testing and other forms of selectivity (Korpi and Palme, 1998; Huber and Stephens, 2012; Standing and Orton, 2017). Moreover, against a backdrop of rapid structural change, social policies are often part of a more integrated policy package aimed at managing such change. And in some of the most successful cases of economic catch-up, they have been instrumental in fostering technological upgrading and productivity gains (Ringgen et al., 2011; Ove and Wallerstein, 2006).

In countries that have already built State capacities in support of development, the administrative infrastructure required to manage universal social programmes is likely to be in place, or can be set up relatively quickly. In other countries, universal social policies and programmes can be rolled out gradually (e.g. by providing one product or service at a time), or in selected regions, making them relatively simple and cost-effective. Even with the provision of universal coverage, it is possible to incorporate several

advantages of narrowly targeted programmes through “smart targeting”, so that they are available to all and at the same time de facto targeted, because each project or initiative will affect distinct social groups differently. These welfare programmes should not be optional extras; they should be essential components of an inclusive development strategy, because they will support productivity growth, skills development, and the growth and stabilization of demand as the economy is transformed through rapid economic development.

As with the other public spending proposals discussed here, financing remains the main challenge for universal programmes that offer good-quality public services, particularly in developing countries. It is evident that, even with the more progressive tax measures suggested above, such programmes will ultimately need to be funded by the mass of wage and salary earners. For this reason, raising both the growth rate and national share of wages from their current levels is essential for inclusive and universal welfare provision. To ensure they remain politically sustainable, it is also important to maintain a sufficiently high quality of public services so that most taxpayers will wish to use them.

Recently, there has been a revival of interest in basic income schemes – a regular and unconditional cash grant paid to every citizen – on the grounds that they have desirable administrative, egalitarian and transformational qualities (box 7.2). In developed economies, that revival is partly a response to the technological threat of a jobless world. However, even if this threat appears less imminent than is often suggested (as discussed in chapter III), the idea of a universal or even targeted basic income merits further discussion as part of an effective welfare system, and as a means of “conquering poverty”.¹⁰ However, such schemes should not be treated as *substitutes* for the provision of universal good-quality public services, but as *additions* to them. This consideration is crucial, though often somewhat disguised in debates about such schemes, because if the basic income is seen as a replacement or substitute for other provisions, the wider macroeconomic, growth and income distributional benefits are likely to be lost.

BOX 7.2 The basics of basic income

A “basic income” is an old idea harking back to Thomas More’s Utopia published over 500 years ago, and it has resurfaced at relatively regular intervals over the past century (Atkinson, 2003). On some interpretations, it is even enshrined in Article 25 of the Universal Declaration of Human Rights (Bregman, 2017).

A universal basic income (UBI) programme requires the State to pay an amount of cash to every adult (and potentially a smaller amount to a child) on a regular basis, and as an economic right. Unlike unemployment or social benefits that are withdrawn once the person gets a job or if their personal situation changes in some way, a UBI is not contingent on particular circumstances, nor can it be withdrawn. However, it may be limited to legal citizens or legal residents of a country, or in some cases, provided on a smaller scale at the level of geographical regions or even cities.

The idea is unusual in that it has had a surprising capacity to garner political support from opposite ends of the political spectrum. On the right, from Milton Friedman’s negative “income tax proposal” to high-tech libertarian support for a “start-up culture” (Schneider, 2015), it is linked to views of “economic freedom” associated with reducing the welfare and regulatory roles of the State. On the liberal left, support for the idea has come from Friedman’s nemesis, John Kenneth Galbraith, and from contemporary utopian thinkers anticipating a post-work world (Bregman, 2017). These thinkers associate it with notions of redistributive justice and social solidarity, which also extends to the feminist call for State payment for household work (James, 2012).

Much of the current discussion focuses on developed economies, where it is linked to anticipated changes in employment resulting from technological advances, which in turn are seen as upending the post-war welfare State built around traditional work relations (Standing, 2016). However, the idea has found expression in several developing countries as well. In China, there is already a *dibao*, or minimum livelihood guarantee (set at different levels in urban and rural areas) that supplements the incomes of those categorized as poor, to allow them to reach a certain defined minimum income level. In several other countries, there are pilot projects or ongoing policy debates about the usefulness and practicability of a basic income scheme (Standing and Orton, 2017).

From a new deal perspective, however, a basic income alone is insufficient and can even be damaging. According to Rogers (2017: 15), it can “only be part of the solution to economic and social inequalities – we also need a revamped public sector and a new and different collective bargaining system. Indeed, without such broader reforms, a basic income could do more harm than good”. In a similar vein, Glyn (2006) and Galbraith (2014) see a basic income as one element in rebalancing economies away from a singular focus on growth to a greater focus on more egalitarian development. Other proponents of a basic income view it, along with other forms of social spending, as a macroeconomic stabilizer in response to financial and other economic shocks (Standing and Orton, 2017).

There are several concerns about the practical aspects of a UBI. First, an initial consensus on its desirability often falls apart over the level of payment envisaged, what tax level might be required to finance it, and how it would fit within the broader social welfare framework (Varoufakis, 2017). Even its proponents in the developed economies accept that, at least initially, it would probably have to be at a “relatively austere level” (Glyn, 2006: 183). In developing countries especially, the amounts involved must be high enough to positively affect real incomes, and they should be directed to a large enough segment of the population to have a significant impact overall. In the absence of reforms to expand the fiscal base in a more progressive direction, even small payments could prove to be unaffordable in these countries.

Second, governments providing a UBI may have to reduce other crucial social expenditures, which would effectively result in the State making cuts in its delivery of essential public services. This is clearly problematic, given that public provision of good-quality social services is necessary for many reasons (including reducing inequalities of income and gender), as highlighted in this chapter. It could also lead to privatization of many activities that, for reasons of asymmetric information and imperfect market functioning, are still best left to the public sector, though that sector should be made more accountable for their functioning.

Third, and most significantly, depending on how the prices of food and other necessities change, a UBI could even end up reducing the real incomes of the supposed beneficiaries, as argued by Minsky (2013) when he critiqued Friedman’s “negative income tax”. He noted that if such transfers caused inflation, as might happen if they increased aggregate purchasing power without ensuring concomitant supply increases, this could result in the scheme delivering less in real terms than promised to the poor, and reducing the real incomes of the not-poor, but not very well-off, population. Such a possibility is supported by the recent inflationary experience of the Islamic Republic of Iran, which in 2010 stopped its fuel subsidy and liberalized energy prices, but at the same time, granted households a regular cash grant to compensate for the increased costs of food and energy (Meskoub, 2015).

Although there has been some tentative talk in the European Parliament of a Europe-wide basic income, scaling it up to a global dimension would seem far-fetched. Indeed, insofar as an inclusive economy is the goal, a universal employment programme at a minimum wage would contribute more directly to poverty alleviation and to improving distribution in most developing countries, because such a programme would tend to exercise upward pressure on wages. Moreover, an employment guarantee that recognizes that paid work is both a source of income and of dignity is transformational, in that it not only shifts power relations between workers and employers, but also has a tendency to force structural changes in a way that raises productivity.

D. Conclusions

It has been a decade since the public sector was mobilized to save hyperglobalization through a slew of policies, including quantitative easing, the absorption of bad debts, guarantees and, in some cases, expansionary public investment and expenditure policies. The idea of a self-regulating market has not survived intact, but nor have the social and economic imbalances that led to the crisis been addressed. In the interregnum, as growth has stagnated in developed economies and sharply slowed in emerging economies, resentful nationalism and xenophobic fantasies have made an all too predictable return. The international community has provided an alternative and hopeful agenda with a series of goals and targets that could secure an inclusive and sustainable future. What is still needed, however, is a compelling and persuasive narrative that could move from ambitious decision-making to decisive policy action.

Building the institutional structures and flexibilities in support of inclusive growth and development has become more challenging as the world has become more interdependent. Institutions for consultation, discussion and participation remain essential for generating the popular support needed to challenge the entrenched interests that have formed under hyperglobalization. To the extent that those interests are linked to global markets and firms, global rules and regulations are an urgent necessity. They are also needed in order to provide and manage global public goods that markets are unable or loath to deal with, including emerging threats and dangers related to a changing climate. However, given existing gaps, asymmetries and interests, designing appropriate rules and flexibilities at the global level is likely to be an even greater challenge than at the national or regional levels. Moreover, if a government, at any stage of development, is to agree to cede some degree of influence to international bodies, those bodies will need to be much more transparent and democratic than they are at present.

In recent years, attempts to improve representation and accountability in the Bretton Woods institutions have been only tentative at best. The G-20 process has helped to broaden participation in global decision-making beyond the traditional powers. However, there remain significant gaps in its architecture, and the voice of most developing countries remains either weak or absent. In response, several developing countries have struck out on their own, forming

regional institutions, funds and banks that are effectively providing regional public goods and meeting many countries' needs. However, such initiatives can go only so far, and can never be sufficiently large or well-resourced to meet systemic crises or fulfil all needs at the same time. A global new deal would have to accelerate the reform process so as to achieve more effective approaches to global problems. There have been intermittent calls for modernizing the structures established at the end of the Second World War, including pruning back overlapping mandates and finding better ways to coordinate their actions and policy advice. But despite the recognition that the growth of global interdependence poses greater problems today, the mechanisms and institutions that have existed for the past three decades have not been up to the challenge of ensuring coherence, complementarity and coordination in global economic policymaking. Proposals for making globalization more inclusive in the current context should start with an attempt to address these problems, *inter alia* through the appropriate organs of the United Nations system.

Beyond that, each country should be able to decide where the boundaries are drawn between the State, private and social sectors; and developing countries seeking to catch up with those higher up the development ladder, should be free to choose their own pattern of development, whether it be following in the footsteps of countries such as the United States or Denmark or China. Such freedoms of choice have been sidelined or abandoned altogether over the past 30 years under the dominance of a one-size-fits-all policy agenda, to which no alternative has been considered viable or acceptable. Indeed, even as these positions have softened, and the capture of policymaking by narrow interests challenged, one of the lingering features of hyperglobalization has been the application of business methods to social problems, which “exaggerate what technology can do, ignore the complexities of social and institutional constraints, often waste sums that would have been better spent more carefully, and wreak havoc with the existing fabric of society in places they know very little about” (Mazower, 2014: 417). Such business methods can have far-reaching exclusionary consequences, whether due to adverse selection or cherry-picking of the most profitable activities, leaving the chronic or expensive responsibilities to the State. This is an effective denial of representative politics, which is essentially about weighing various

alternatives and choosing between them, managing the trade-offs that such a choice necessarily entails, and confronting the various interests that inevitably come into play.

Strong multilateral institutions are just as necessary for fostering sustainable and inclusive growth paths as strong and representative national governments. Indeed, it is difficult to see one working without the other. However, in the search for stronger multilateralism, there is an obvious tension between its association with a rules-based system and the kind of flexibility needed by national policymakers to deal with the complexities and radical uncertainties that

characterize today's interdependent world. On one level, rules lend themselves to a degree of predictability and transparency; on another, and as discussed in the previous chapter, rules are not simply the product of technocratic expertise but also of political influence. Rules designed to help boost profits at the expense of the public – a toxic feature of hyperglobalization over the past 30 years – appear to have weakened multilateralism and exposed it to capture by a narrow set of private interests (*TDR 2014*). This is likely to be a persistent source of political tensions in a more open global economy. Addressing these institutional challenges will be central to a more inclusive global new deal for the twenty-first century. ■

Notes

- 1 The “new deal” idea was first introduced, in passing, by President Roosevelt in his acceptance speech as a Democratic candidate for the Presidency of the United States, but it was only made a central campaign promise by subsequent reporting by the press. For useful accounts, see Leuchtenburg, 2009; and Hiltzik, 2012.
- 2 Political horse-trading, for example, meant that policies destined for the United States South did not include black households; more generally, employment programmes were slow to include women, immigrants and black workers, and even when they did, the conditions were different, restricted by quotas and with lower wages (see Katznelson, 2013).
- 3 United Nations Conference on Trade and Employment, Havana, Cuba, Final Act and Related Documents. Interim Commission for the International Trade Organization, Lake Success, New York, April 1948.
- 4 According to the ILO (2017), the number of people defined as “unemployed” are estimated to reach a record of more than 204 million by 2018; of these, 163 million are likely to be in emerging and developing countries and 38 million in developed economies. The fact of being employed is in itself no guarantee of inclusion – as many as an estimated 28 million people are identified as the “working poor”, and just under half of total employment worldwide is defined as “vulnerable employment”. Vulnerability has been particularly prevalent in developing countries, accounting for four out of five workers.
- 5 On the success of India's Mahatma Gandhi National Rural Employment Guarantee Scheme, see Ghosh, 2014.
- 6 A study of six developing countries (among them, Brazil, China, India and Indonesia) found that increases in health spending, even of only 2 per cent of GDP, would lead to increases in overall employment by 1.2 per cent to 3.2 per cent, depending on the country (Women's Budget Group, 2017).
- 7 These issues have been extensively discussed in previous *Reports*, most recently in *TDR 2015*.
- 8 See *TDR 2015* for a discussion on the role of lobbyists in financial markets and in the drafting of financial regulations.
- 9 A World Bank study on social inclusion is fairly typical of this approach, with its focus on the marginalized or excluded in society. The study described the problems of exclusion of “indigenous people, new immigrants, people with disabilities, people with different skin tones, people who spoke the official language imperfectly...” (World Bank, 2013: 1), and advocates education as a critical solution.
- 10 The economist, James Tobin, wrote an article in the *New York Times* 50 years ago entitled *Conquering Poverty in America*, which called for a guaranteed basic income, and the following year he wrote an open letter to the United States Congress co-signed by 1,200 fellow economists, including Kenneth Galbraith and Paul Samuelson. The United States House of Representatives passed legislation in support of such a move beginning in 1970, but it was rejected several times by the United States Senate, and the idea was finally abandoned in 1978 (Bregman, 2017).

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