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POLICY BRIEF

ACHIEVING THE GLOBAL NEW DEAL WE NEED – SOME STEPS FORWARD*, **

1. Ending the age of anxiety

In many countries, governments are currently grasping for a "quick fix" to the problems of hyperglobalization – whereby, over three decades or more, the prioritizing of narrowly financial interests has created an unsustainable and inequitable world in which too many people in too many places feel left out. Stagnant wages, vertiginous levels of debt and recurrent financial crises are the most visible manifestations of a dangerously unbalanced world. But rigged markets, corporate rentierism and a dearth of productive investment are also hobbling economic recovery and longer-term transformation. In developing countries, these problems are compounded by premature deindustrialization, the diminishing opportunities for export-led growth and a heightened vulnerability to external shocks both economic and environmental. Other, older problems that long hindered developing countries are now emerging in even the most advanced economies – such as the surge in informality in many parts of the economy, resources lost to transfer pricing, or, after years of low investment, the problem of ageing and inadequate infrastructure.

Despite this daunting landscape, the default policy regime in most advanced economies has not changed much since a global economic meltdown was averted following the sub-prime crisis of 2007–2008. It continues to be a mixture of quantitative easing, fiscal austerity and market liberalization; the outcomes have been neither sustainable nor inclusive. Having resisted the austerity route for longer, the recent slowdown of growth in many developing countries, along with attendant debt market pressures, is beginning to encourage some policy makers in that direction.

The heightened sense of economic anxiety has not only stoked a distrustful, and at times xenophobic, politics but a sense of alarm each time interest rates rise by infinitesimally small amounts, currency and equity markets wobble or commodity prices take a dip and there is a growing fear that technological advances, such as robotics, will only work for the few rather than the many. Quick fixes, from tax cuts to public private partnerships have been tried, and failed.

Rebalancing globalization and exiting this age of anxiety needs more than tinkering around the edges, it needs a profound change in the thinking and policy mix that caused these problems in the first place. It needs a Global New Deal.

The following brief lists an inter-related set of policies that will be needed to address the problems of hyperglobalization and help build more inclusive, stable and sustainable societies. The broad aim is to catalyse a big transformative push by breaking with austerity economics, promoting public investment and crowding-in productive private investment, and levelling the playing field for working families everywhere. While the appropriate mixture of recovery, regulation and redistribution will vary across countries (and with policy experimentalism of particular

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** For more detailed information, see the *Trade and Development Report 2017 – Beyond Austerity: Towards a Global New Deal (TDR 2017)*; in particular chapter VI (United Nations publication, sales No. E.17.II.D.5, New York and Geneva).

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Austerity need not become the new normal

Level of austerity 2016	Ratio of actual government spending vs forecast based on previous six years	Country examples
None	≤ 0	Brazil, China, Germany, India, South Africa
Limited	> 0 but ≤ 0.5	Austria, France, Poland, United States
Medium	> 0.5 but ≤ 1	Argentina, Bulgaria, Netherlands
Significant	> 1 but ≤ 2	Czechia, Italy, Portugal, Spain, United Kingdom
Severe	> 2	Greece, Hungary

Source: *TDR2017*, page 3.

importance in the developing world), all policymakers can still usefully recall the original New Deal of the 1930s but they must further translate its message to the global level to leverage the opportunities of today's inter-dependent world.

2. Managing broad-based recoveries

An enduring lesson from the original New Deal is the need to establish and nurture a pro-growth, inclusive macroeconomic regime which uses all the levers of aggregate demand not just to absorb underutilized resources and boost incomes but to raise productivity by supporting structural transformation.

The policy mechanisms are many and vary depending on country conditions and circumstances, but include short-to-medium-term proactive counter-cyclical policies alongside long-term investment in social and physical infrastructure. They need also to be supported by a bold political and social vision that goes beyond cautious technocratic tinkering. This calls for rejecting austerity while prioritizing spending over tax cuts to maximize multiplier effects and using public investment programmes to crowd-in private investment to priority sectors.

Government spending should be seen as a vector with both magnitude and direction: increased spending on social services, for example, not only boosts overall demand but generates many jobs as well as improving quality of life. Government procurement, particularly in developing countries, can be an effective way of stimulating both demand and investment, as long as it is well designed and with appropriate monitoring and feedback mechanisms.

A second, complementary element, common to advanced and developing countries alike, is public investment in transformative infrastructure – just as during the 1930s and post WWII European reconstruction, when markets were unable to generate the investment needed to meet economic, human, social or environmental needs. Massive public works schemes such as the Tennessee Valley Authority galvanized structural transformation and created dynamic new sources of growth and development, as well as thousands of jobs. China's ambitious Manufacturing 2025 shows the lesson has not been forgotten today, and indeed in many other countries governments plan to revive public investment in infrastructure in order to restore their economic fortunes.

Hyperglobalization has not been short of cheap money, not least in the post-crisis era; but it has been short of demand, particularly in advanced economies (table). Even so, the idea of a global new deal quickly faces talk of budget constraints and financial impropriety. But as Keynes recognized, by taking care of jobs (and rentiers) much of the concern about budget pressures, at the national level, will take care of itself.

Still, financing government programmes is a recurrent challenge particularly in the poorer and most vulnerable economies. Relying primarily on credit creation of the right kind is an option for countries that have the institutional preconditions but this is often not the case.

In some parts of the world fiscal revenues are already sufficient for what is needed but should be better directed; in others, even a small change in fiscal policy could have positive effects on boosting government's spending capacities. While the case for lowering taxes has little empirical support, UNCTAD finds that raising taxes by 5 per cent, on the top income decile in 43 countries that either belong to OECD or G20, could gather additional revenues of around $1 trillion.

Inclusive macroeconomic proposals include:

- For developing and advanced economies alike, place job-creation with decent remuneration as top priority over other targets.
- Employing the full menu of fiscal policies in order to manage demand, and encourage credit allocation towards

the most productive and job-creating uses. Direct interest rate and exchange rate policies to the goal of recovery, job-creation and expansion, rather than exclusive targets for inflation. Particularly in developing countries, the Central Bank can become a more active participant in creating and directing credit.

- Use public procurement as an effective mechanism stimulating employment, consumption and investment demand; this can include large scale public infrastructure projects.
- Target job-creation to where the unemployed or underemployed can quickly best benefit. This may likely require a strong regional focus. Also, investing in paid care – both for the environment and people – can absorb large numbers in jobs that are not easily replaced by technology, and create large multiplier effects in terms of aggregate employment increases.
- Incomes policies can help boost effective demand and promote formalization; manage resulting macroeconomic trade-offs and legislative action (minimum wage, proper contracts for informal work, etc.) can help rebalance labour markets back towards the needs of working households.

3. Reining in the rentier economy

Rolling-back regulations on the movement of capital while restricting the ability of labour to organize collectively have, over recent decades, not only led to a sharp decline in the wage share, but equally significant increases in market concentration and a proliferation of "rentierism", whereby the world's largest corporations protect their privileged market position and power through a variety of exclusionary (and on occasion predatory) mechanisms in search of surplus profits. Such a world is a long way from the textbook paradigm of perfect competition and is linked with excessive financialization, whereby easy speculative gains are privileged over patient investment and job creation in the productive economy.

Rising corporate debt levels have pumped up the market capitalization of the largest firms with bloated dividend payments and excessive share buybacks crowding out reinvested profits. Bilateral and regional trade agreements that give corporations wide-ranging powers to shape or dispute regulatory policies, have locked-in a financialized world with no boundaries and limited countervailing pressures.

Some policy recommendations to reverse these trends include:

- Stricter enforcement of anti-trust legislation, along with stronger national disclosure and country-to-country reporting requirements for large corporations and a distributional component in competition policy.
- Reining in value-stripping CEOs, by establishing a code of practice for executive pay, making salary packages of top managers more transparent and based on long-term performance, not on stock-based compensation.
- Stopping the looting of natural monopolies through a mixture of public ownership and stronger oversight along with a closer eye on the scale and scope of subsidies made to the private sector through PPPs and privatization programmes.
- Creating a more diversified and stable banking system that can cater to different needs, including through stronger regulation of shadow banking and supporting public banks for infrastructure lending and for venture capital for small and medium sized enterprises.

4. Building fairer and more resilient societies

Redistribution was the last of the three R's of the original New Deal (Recovery and Regulation being the other two) encompassing measures to bolster social security and promote a broad range of economic rights. These are just as essential today. Persistent insecurity and inequality is at the heart of the current malaise and the underlying cause of the loss of trust in the economic system and its ability to provide sustainable livelihoods and credible pathways to prosperity. Support for redistribution is gathering pace as people realize unequal societies are not only socially unstable but also economically inferior.

Measures must involve not only ex-post social transfers that shift wealth and opportunities more equitably from richer to poorer, but also address profound imbalances in bargaining power between capital and labour, and between governments and globalizing corporations, that have been allowed to develop in recent decades. Some commentators argue that the establishment of institutions and laws to counter-balance the powers of government, business, labour and consumers were among the most important legacies of the original New Deal.

Some proposals for policy action include:

- Adopting progressive taxation measures beginning with a return to the marginal income tax rates in place at the start of the hyperglobalization era and extended to rents earned through intellectual property rights, property incomes, etc.

- Innovative supplementary income support schemes including social funds capitalized through shares issued by the largest corporations and financial institutions; or acquiring shares in publicly supported companies and IPOs in key sectors.
- A universal basic income as a complement not a replacement to existing social and public services.

5. Going global

The original New Deal offered a positive alternative to a fearful society, in which social inclusion went hand in hand with economic recovery, shared technological progress and a healthy environment. It dropped any pretense that markets, left to their own devices, could deliver desirable outcomes and instead built a mixed economy underpinned by effective government policies and regulations and a strong social contract.

Today, as then, much can be achieved at the national level, and typically that is the main locus of transformative development strategies. A full employment and infrastructure agenda at the national level can, moreover, help to revitalize and rebalance world trade and fend of protectionist threats. But inclusive macroeconomic policies will require policy coordination across countries, particularly amongst the systemically important economies, to ensure the build-up of global imbalances does not undermine expansionary measures at the national level.

Just as importantly, reversing the inequities of hyperglobalization needs a global approach, because many of the sources of exclusion and stratification have a large international footprint, and some of the tools needed to build a more inclusive economy have been constrained or even forbidden by international

In addition, policies that can help support a Global New Deal include:

- Continue efforts to stop global tax base erosion and profit-shifting, which is costing governments hundreds of billions of dollars annually. Introduce a financial transaction tax which on some estimates could generate another half trillion dollars. Clamping down on the use of tax havens will require legislative action at the international level but interim efforts could include a global financial register, recording the owners of financial assets just as the owners of physical assets are required in most countries.
- Increased mobilization of multilateral financial resources, strengthening of regional reserve funds, payment systems and development banks; as well as the coordinated use of other public resources, such as Sovereign Wealth Funds, currently valued at more than $7.5 trillion should also be considered.
- Increased ODA to meet the 0.7 per cent target and more, to refocus aid programmes in ways that enable recipients to mobilize resources quickly for sustainable economic development.
- A more balanced approach to sovereign debt restructuring; in particular establishing a set of statutory procedures for relief restructuring and recovery that supports both debtors and creditors.
- A Global Competition Observatory to monitor market concentration and restrictive business practices, and to gather information on the large variety of existing regulatory frameworks around the world, including on investment agreements, as a first step towards co-ordinated international best practice guidelines and policies.
- Extending the redistribution agenda to the global level by ensuring working conditions of expatriate and migrant workers are decent, not precarious or exploitative, including globally portable

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