



Post 2015:
business as usual
or bending the
arc of history?



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“The arc of the moral universe is long, but it bends towards justice.”

Dr. Martin Luther King Jr.

As we approach the 2015 deadline for the Millennium Development Goals (MDGs), discussions about what should follow them offer a historic opportunity to rethink global development. The post-2015 agenda clearly needs to tackle the unfinished business of the MDGs – including ending extreme poverty and attaining universal primary education. But it also needs to be much more ambitious, being crafted in a world in which the prospects for many of the poor and vulnerable men and women are actually worsening, and inequality within countries is widening.

Real ambition is needed in terms of a global vision for ending poverty and reducing inequality by 2030. And that vision can only be delivered if the ambition is matched with an equally strong commitment to reframing development models – particularly the flawed economic and financial policies that underlie today’s crises. We cannot continue with a global economy that works best for those with the most privilege and money, letting inequality burgeon, unemployment grow, while the life prospects of a large proportion of the world’s people remain vulnerable.

One obvious area for reform is that of the global tax system, which has allowed those with the most resources to avoid tax and accumulate yet more, while the rest must pay not only their own dues, but also make up for the gap created by the wealthy. Genuine tax reform could claw back US\$300 billion a year in revenue lost to developing countries through tax havens and tax deals. Recouping this level of tax revenue – the most accountable, stable, secure and self-sufficient source of funds – would put even ambitious post-2015 development benchmarks within reach.

As the 193 members of the United Nations (UN) meet in New York for the 68th UN General Assembly in September 2013, they have an opportunity and a responsibility to ensure the post-2015 agenda is fit for purpose: setting the world on a new and truly ambitious path of development that will – within a generation – not just put an end to people living below the US\$1.25 a day extreme poverty line, but go much further towards ending relative poverty, dramatically reducing economic inequality, and doing this in a way that is environmentally sustainable.

UN Member States’ challenge is to have the courage to turn the long-standing aims of development into reality. A post-2015 agenda that does not set ambitious goals – and bring the global economic and financial systems in line with those goals – will not only fail to put the world on a new development trajectory, it could endorse a development framework that puts the eradication of poverty even further out of reach.

The MDGs – galvanizing but unambitious

Analysis of the MDGs will inevitably continue. There is a school of thought that credits them with great success in mobilising overseas development assistance¹ and rallying political support for a set of specific development outcomes that have followed, such as halving the proportion of people without access to sanitation or safe drinking water, and getting 90% of children enrolled in primary education. But significant challenges

remain. MDG 1 aimed at halving only ‘extreme’ poverty, with the term itself defined with the very low benchmark of people living on less than US\$1.25 a day.⁶ However, while income poverty halved, hardly any progress has been made in relation to reducing the number of those experiencing hunger. This seriously questions whether the US\$1.25 per day income poverty benchmark is sufficient to even cover basic needs such as food.

Halving extreme poverty – the MDGs or China’s economic miracle?

At the current rate of progress there will still be around 1 billion people living below US\$1.25 per day in 2015. While the overall goal of halving extreme poverty by 2015 has been met ahead of schedule, this has been (according to World Bank and other data) largely the result of economic growth in China, and to a lesser extent India, rather than as a direct consequence of the MDGs. Progress in sub-Saharan Africa has been much slower. Here, extreme poverty fell from 51% in 1981 to 47% in 2008.³

remain in relation to some MDGs, including gender equality and maternal health.

Unfortunately, the successes of the MDGs have not been consistent across countries. Neither have they been consistent within countries, where rural areas and marginalised groups continue to lag behind on virtually all goals and targets.³ Indeed, many inequalities not only remain but have worsened since the turn of the millennium, creating barriers to reaching a more equitable future.⁴ The MDGs have also been criticised for failing to reflect some of the fundamental development challenges set out in the Millennium Declaration, and for potentially galvanising resources for some development outcomes while sidelining others.⁵

More fundamentally, the ambition of the MDGs has been questioned – with valid

reason. Moreover, most of those who rose above the US\$1.25 benchmark are still poor – compared to 1981, almost twice as many people were living on between US\$1.25 and US\$2 in 2008.

And poverty exists far above even the US\$2 a day benchmark, with US\$10 dollars a day arguably more realistic in terms of distinguishing lifestyles in rich and poor countries. The number of people living under the US\$10-a-day line has increased by 25% between 1990 and 2010.⁷ Income inequality between and within countries has meanwhile reached historically high levels, according to a recent World Bank study, with the richest 8% of the population earning 50% of the world’s income.⁸

To truly target poverty and its roots, the post-2015 agenda must build on the MDG’s successes but also learn from their

failures. It must reframe development on the premise that everyone is guaranteed fundamental human rights, including rights to food, basic healthcare and education, decent jobs and income, access to justice and to raising the level of ambition for a

decent and more equal standard of living for all by 2030 or 2040. This includes addressing inequality head on. It must also ensure the broader economic and financial policy is conducive to delivering on this ambition.

Putting human rights – especially women’s rights – front and centre

To achieve real development gains, global efforts cannot afford to overlook the fact that women are disproportionately represented among the poor.

- Women are regularly denied fundamental rights to education, employment, basic resources, health and a life free of violence.
- Women and girls account for two-thirds of the world’s 1.4 billion people living in extreme poverty.
- Worldwide, women work longer hours than men. Much of this work is the unpaid care work of maintaining households and families.
- Women are not considered for work on an equal basis. They are often in low-skilled, low-paid and insecure jobs, while facing conditions that undermine their labour rights.

Swimming against the tide – 2015 post and the broader development framework

At the global level... inequalities in the distribution of wealth and power have increased most dramatically in recent decades, generated by the mainstream economic policy framework.⁹

In the words of the UN Secretary General, “the economic and financial crisis has complicated efforts” to achieve the MDGs.¹⁰ The ideals of the MDGs have, in effect, collided with economic reality in the shape of economic and financial policies that have undermined progress in human development, eroded human rights and contributed to widening inequality. These economic and financial policies also underperformed in relation to the very objective they were designed to deliver: economic (GDP) growth.

By the end of 2010, an additional 64 million people fell into poverty because of the global economic and financial crisis (not to mention the food and climate crises), reversing progress that had been made towards the MDGs.¹¹ This may have lasting impacts on whole economies, reducing potential output in developing countries by between 3.4% and 8% in the longer run, compared to pre-crisis levels, according to the World Bank.¹² While the causes of the most recent crisis originate mostly in developed countries, the impacts have been harsh for developing countries and the poor.

All of this has its roots in a model of economic development which advocates for trade, investment and financial sector liberalisation. This model has been advocated by the IMF and World Bank in most developing countries starting in the early 1980s. This approach spread to many other institutions and governments and has dominated economic and development thinking and practice over the last three decades. It is based

on a belief that free-market capitalism – what George Soros terms market fundamentalism - is the only road to economic growth and efficient resource allocation. Specifically, this means, a mix of trade and financial sector liberalization, un-strategic approaches to foreign direct investment (FDI), while there is a lack of attention to the economic and social policies that can make the domestic private sector thrive, and which can create decent jobs and increase incomes and human development for the majority of citizens.

This has become the dominant ‘neo-liberal’ economic thinking and practice of the new century. And yet this approach has displayed seriously disappointing performance in terms of productivity, capital investment, and economic growth. As a result, it has eroded the tax base for governments, triggering a process of divestment in essential public services, education, public investment on research and development and infrastructure, and has put a heavy, long-term mortgage on the potential for economic and social and human development.

As a result, most African countries were led into a cycle of debt and ever-deeper structural adjustment that saw declining standards of living and increasing poverty through the 1980s and 1990s. In contrast, the countries of Southeast Asia successfully followed significantly different policies, maintaining some financial and economic controls and using government intervention to support specific sectors

(see box). Orthodox economic policies – those that, for example, forced developing countries to lower tariff barriers - have prevented developing countries from taking steps toward greater self-sufficiency by growing their manufacturing and industrial bases. This is especially so with regard to the economic policies that could have enabled a solid domestic economic activity to deliver increased tax revenue and domestic resource mobilisation.

Instead, foreign investors have been invited into countries where they get substantial tax breaks and other inducements that make domestic

companies uncompetitive and drain the national treasury of potential tax revenues. The terms of investment granted to foreign companies have left domestic industries at great disadvantage and stifled the potential for a thriving domestic industrial sector which, in most countries, is responsible for the largest share of job creation and an important share of the tax efforts. In addition, most developing countries are ill-equipped to combat tax avoidance measures routinely undertaken by transnational corporations, such as the use of tax havens to shelter profits from tax.

Washington Consensus and free-market capitalism: ideology or pragmatism?

In the countries that adhered most firmly to the financial and economic policies of the ‘Washington Consensus’, economic growth has been limited at best. For example, in Latin America in the 1990s, growth was half of what it had been between 1950-1970, prior to neoliberal economic policy packages.

In comparison, the countries of Southeast (or East and Southeast) Asia followed significantly different policies, maintaining some financial and economic controls and using government intervention to support specific sectors. They had huge success as a result. For example, Malaysia has dramatically reduced its poverty rate to only 1.7%. This is not to mention that most of the countries that have weathered the financial storm best are those that have large public sectors and social protections, including Brazil.¹³

The economics of the Washington Consensus represents an ideology that has not been proven in either theory or practice,¹⁴ but with huge costs for developing countries and poor people living in those countries.

Critical elements in a real post-2015 development agenda

To meet the demands of an ambitious development agenda, governments will need to employ a wide range of new policies and approaches. And social and human development policies need to go hand in hand with economic and financial policies to produce sustained and sustainable economic growth that benefits the majority of citizens – not only those at the top.

A pragmatic and alternative approach to this mix of trade, economic and financial policies is crucial to trigger the type of sustainable economic and social development that can deliver government tax revenue to finance ambitious human development goals, as well as increased median incomes, access to essential services and social and economic opportunities which can deliver a better life for all.

And yet, current discussions of the post-2015 development agenda operate on the premise that an old-fashioned approach to free-markets can remain the main driver of development. But this approach does not

address the fact that the benefits of growth under this economic paradigm have not only failed to 'trickle down', but rather have 'trickled up', making the richest 1% richer and failing to improve the lives of the 99%. Current discussions also fail to reflect the constraints placed on developing countries by international economic structures and policies that effectively limit their ability to determine and deliver their own development choices.

ActionAid argues that economic models and financing approaches must combine human development, human rights and sustainable development, as well as address inequality between peoples and states. Thus, while human rights should rebalance individual, local and national power, governments must also be in a position to be able to design and deliver the corresponding policies needed to ensure those rights are fulfilled – including through stimulating inclusive growth and closing the corporate tax gap in order to fund essential public services such as education, healthcare or access to justice.



PHOTO: JASON LARKIN/PANOS PICTURES/ACTIONAID

Case study - unjust taxes in Zambia

In February 2013, ActionAid revealed that corporate tax avoidance and unfair incentives are a huge problem in Zambia. We estimate that a combination of tax breaks for – and tax avoidance by – Zambia Sugar, a subsidiary of the UK-based multinational Associated British Foods (ABF), has cost the Zambian government US\$27 million since 2007.²¹

Caroline Muchanga, a small business owner in Mazabuka, Zambia, sells sugar produced by the company, which is headquartered a few kilometres from her stall. In three of the last six years she has paid more tax on her business income – in absolute terms – than the multinational company next door.

Financing public services – the role of tax

A new post-2015 agenda that does not include a satisfactory agreement on financing will limit the poorest countries' ability to deliver on ambitious outcomes, and is for this reason also likely to be opposed by most of the poorest countries.

Of the financing options on the table, tax is the most likely to raise the necessary amount of new and additional money, and in a way that also puts developing countries in control, helps address global and country-level inequality, strengthens transparency, accountability and governance, and harnesses the private sector's potential as an engine for inclusive and equitable growth.

Tax revenues have risen faster than GDP in some developing countries, though tax/GDP ratios remain low (on average 13% in low income countries and around 18% in lower-middle income countries, compared to 35% in high income countries).¹⁵ Increased tax revenue is already thought to be a key reason for the reduction in aid dependence seen over the last decade. In least developed and low-income countries, aid has fallen from more than half to a third of government spending. In most cases this is because of progressive taxation, especially of large corporations.¹⁶

Despite the potential of tax as a source of development finance, and pressure to reduce aid flows, current international tax policy rules mean developing countries lose a significant amount of money to tax avoidance and evasion, as well as to tax competition.

Reasons for this include developing countries' 'source taxing rights' (i.e. on cross-border income and capital) have been eroded through sets of international treaties and agreements; tax havens and companies using them are able to hide behind veils of secrecy; and in the face of multinational corporate pressure, governments are pushed to compete with each other over tax breaks for foreign investment by offering ever-more-attractive incentives, which in turn decrease the benefits of that investment.. Meanwhile, very little aid has been made available to developing countries' tax authorities and revenue collection systems to help them improve their ability to close in particular the corporate tax gap.

Recent estimates suggest that developing countries lose between US\$120-160 billion annually as a result of money hidden in tax havens,¹⁷ **while developing countries could raise an estimated US\$138 billion by eliminating corporate tax incentives.¹⁸ Together this amounts to nearly US\$300 billion per year, more than twice the level of overseas aid (2012).**¹⁹

Ideally, the post-2015 framework would lead to a new set of international tax policies, aimed at enabling countries to reach a universal domestic resource 'floor', such as increasing the current corporate tax contribution by 20%²⁰ or increasing the overall developing country tax/GDP ratio to 25%.

Forging a new development narrative

The long-term impact of the MDGs on the lives of the poorest people will be constrained by the fact that the MDGs did not tackle some of the most critical structural causes of poverty – namely the flawed global economic and financial systems.

Whereas the reasons for the MDGs' limited focus might have been legitimate, it is increasingly evident that it is simply no longer an option to overlook how the global financial and economic models either help or hinder the eradication of relative poverty.

It is critical to bring the reform of economic and financial policies into the post-2015 agenda. For a new agenda to really succeed will require a new development model based on human rights principles and proven economic and social success.

Bringing development models into the debate is particularly important for

developing countries, on whom much of the responsibility for delivering the development outcomes will fall. Global economic structures and power dynamics continue to tie the hands of developing countries, giving them limited policy options for tailoring their policies and systems to reflect national needs, including their ability to access finance and build strong and equitable economies.

A new and ambitious global partnership to end poverty and inequality will not be successful unless it is fairly brokered between all countries and people, including the least powerful ones, and unless it puts overall development models at the centre of discussions.

New commitments to fix the broken international tax system will serve as a critical indicator of whether the post-2015 agenda will be business as usual, or whether – to paraphrase Martin Luther King – it will bend the arc of history.

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