1. INTRODUCTION

The prevailing tendency in both the science and practice of economics reserves a major role for economic policy in improving the major aggregates in an economy. All too often, the improvement of these aggregates becomes an end in itself, leaving other equally or even more important issues for the well-being of people and the sustainability of the planet in the background.

The Policy Coherence for Development approach (PCD) provides the opportunity to analyse economic policy from a different standpoint. This rationale places life and the care of human beings and the planet at the center of the analysis. It therefore has enormous potential to reorient these policies and tackle the global challenges involved in development.

In order to contribute to this analytical approach, this article explores a set of economic policies from the PCD perspective. The analysis is part of broader research being carried out by Plataforma 2015 y más that puts together an index to measure countries’ behaviour in PCD terms. The article aims to help contribute to identifying the minimum aspects that should be included in this index, in order to measure the coherence of the three types of economic policy it covers: fiscal, financial and trade.

2. GENERAL CONSIDERATIONS ON ECONOMIC POLICY TAKING A POLICY COHERENCE FOR DEVELOPMENT APPROACH

In recent few decades, economic policy in many countries has been formulated within the framework of the prevailing economic theory which, in its reductionist approach, identifies development with economic growth, considered to be an end in itself. The success of economic policies is mainly measured by the growth that they are able to generate, while elements such

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as well-being, equitability, social rights and sustainability are perceived to be either the results of economic growth itself or as something to be potentially tackled afterwards, “once growth is considered sufficient to be able to afford those luxuries” (Pouw and McGregor, 2014). Taking this approach, GDP (aggregate value of goods and services produced) is considered to be a benchmark indicator to measure a country’s development.

The capacity-based approach underpinning the PCD index calls the prevailing economic approach into question (Deneulin and McGregor, 2010) and constitutes a framework with which to reformulate the way economics is understood and put into practice (Alkire, 2010). It therefore serves as a starting point for formulating economic policies that promote people’s actual well-being.

According to this approach, development is a process amplifying people’s capacity to be free and do what they value (Alonso, 2011). It therefore places human beings and their well-being at the heart of policies (Deneulin and McGregor, 2010), providing a series of potentially relevant elements with which to formulate economic policies that are coherent with this view of development, including the following, which are briefly outlined below.

On one hand, the object of economic analysis is shifted over to people while the focus on income is shifted to capabilities. Therefore, a healthy economy is one that supports the expansion of people’s capacities and freedom (Alkire, 2010). The shift is away from the view of development as sheer economic growth, where it is measured by GDP growth. It is a shift from a material to a pluridimensional order (Alonso, 2011). The often-misunderstood link between means and ends is also clarified. As set forth in the 1990 Human Development Report, “expansion of production and wealth is merely a means. Development’s end must be human well-being” (UNDP, 1990).

In addition, ethics are once again set at the heart of policy formulation, with a bent towards value judgments about what a good life and a good society actually are. Normative debate as to what policy objectives should be is brought to the foreground, instead of the prevailing technocratic debates in orthodox economics whose normativity remains concealed by complex mathematical models (Deneulin and McGregor, 2010).

Lastly, even from an individualistic standpoint, in ethical individualism, which considers that individuals should be the ultimate object of analysis, there is recognition of the need to evaluate institutions and social structures because they are important for a person’s well-being. Meanwhile there is a departure from methodological individualism lying at the heart of a large portion of conventional economic thought where all social phenomena can be explained based on an analysis of individuals and their property. On this count, although they have not been at the heart of its analysis,
the capacity-based approach also considers the positive significance of groups, cooperation and collective, public action so that capacities can be expanded and enjoyed (Alkire, 2008; Alkire, 2010; Deneulin and McGregor, 2010).

In short, economic policies coherent with human development must stem from an outlook that takes the previously mentioned elements into account. The approach therefore marks not only a significant change in the prism used to assess the objectives that person-centered economic policies should have, but also involves a questioning of the principles, assumptions and methodologies used to underpin the economic models legitimizing the policies that are later applied.

It can certainly be said that there is growing concern among economists regarding the conventional economic model’s lack of suitability to guide and drive policies providing widespread well-being to broad segments of the population. Increasingly, the need to open economic theory to other disciplines in order to include elements that contribute to a more comprehensive, realistic economic analysis (where realistic means falling in line with reality) is defended.

From several quarters, for instance, there is a calling into question of the assumption on which a large part of conventional economic theory is based, i.e. that economic agents are rational, well-informed and pursue only their individual interests, while overlooking the fact that information is not always perfect, that economic agents are not always rational, and that they do not act to pursue merely their own interests but also those of the persons or groups who belong to their inner circles, or who are important to them, or act under the influence of factors such as power relations, cultural and historic values, group interests, and other factors that have a bearing on their behaviour and decisions (Pouw and McGregor, 2014).

More pluralistic outlooks on economics also consider the need for economics to be recognized as an institutionalized process, meaning that economic relations should be understood as embedded in the political, social and cultural context as well as in the natural surroundings where they take place. This underscores the importance of building factors such as institutions, regulations, access to and control of resources, and cultural and social habits and customs into the analysis of economic processes (Pouw and McGregor, 2014).

For its part, feminist economics points towards the need to move beyond approaches based solely on the market in order to place life-sustaining processes at the heart of analysis. These processes involve non-remunerated (and therefore invisibilized) work performed by women in households. Feminist economics also factors the study of gender relations into economic analysis and recognizes that these relations underpin the
social and economic system itself. It also denounces the fact that economic policy is not gender neutral (Pérez Orozco, 2014; UN Women, 2012).

Similarly, ecological economics tackles the relationship between ecology and the economy by taking a transformative approach reaching beyond the analysis of environmental issues in monetary terms. It puts forward a reconsideration of the economy whose premise is to consider that an economic system is a sub-system within a biosphere (and not the other way around) and that its functioning should therefore be subject to the laws of nature (Aguilera Klink and Alcântara, 1994; González Reyes, 2011).

These are only some examples of the many currents and approaches which, going beyond the prevailing approach to economics, may be of interest to include in the analysis of the behaviour of economic policy from the perspective of development policy coherence. They stand as additional outlooks with which to explore the three economic policies which, in principle, will be measured in the PCD index, i.e. fiscal, financial and trade policy.

3. AN APPROACH TO THE ANALYSIS OF FISCAL POLICY FROM A POLICY COHERENCE FOR DEVELOPMENT PERSPECTIVE

Among the several spheres in which fiscal policy impacts development, the following are particularly relevant from the policy coherence for development perspective:

Firstly, fiscal policy plays a crucial role in mobilizing domestic and international resources to secure States with predictable, stable, sustainable frameworks with which to fund public policy to ensure citizens’ well-being and the realization of human rights. The very International Covenant on Economic, Social and Cultural Rights (ICESCR) establishes that States Parties must engage to adopt measures up to the maximum amount of their available resources in order to gradually achieve the fulfillment of economic, social and cultural rights (ESCR). Fiscal policies that are coherent with development should therefore be geared towards extending the overall tax base and mobilizing a maximum amount of available funding to contribute to States’ fiscal sustainability via revenue as opposed to approaches that prioritize reductions in public spending. In meeting this obligation, countries are responsible for acting on all of the factors that erode the tax base and curtail their fiscal policies’ revenue-generating potential. These measures geared towards broadening out the overall tax base should go hand in hand with expenditure strategies aimed at ensuring the realization of ESC rights as well as the conditions for sustainable life (Balakrishnan and Elson, 2008; Center for Economic and Social Rights and Christian Aid, 2014; Pérez Orozco, 2014).
Furthermore, fiscal policy is one of the main ways that countries have to combat economic and social inequality, one of the fundamental human rights obligations of any State. Through the proper balance of taxation and expenditure, progressive fiscal policy allows wealth to be transferred from high to middle and low income level groups. Thus, coherent fiscal policy will prioritize the principles of equality and distribution by establishing progressive tax structures that properly tax income from companies and capital and that ensure all taxpayers effectively contribute according to their capacity to pay (Iltriago, 2011).

From a feminist standpoint, fiscal policy plays a key role in the sustainability of life (or lack thereof). For one, it determines available public funding to ensure people’s well-being. This is very closely linked to a State’s degree of commitment to building collective responsibility for care (Pérez Orozco, 2014). Furthermore, fiscal policy is often underpinned by social organization models based on the traditional family (“male provider-female carer”). Based on this rationale, taxation and expenditure structures may institutionalize, legitimize and promote certain models for living together and a female carer role, and this fosters a division of labour by sex dooming women to more precarious labour conditions and, in many cases, jeopardizing their economic independence (Pazos and Rodríguez, 2010; Pérez, 2014).

It is therefore fundamental for these policies not to promote social models that reinforce and reproduce sexual division of labour and for public expenditure strategies to be geared towards ensuring that the tasks associated with maintaining life are taken on collectively and not, as is currently the case, in the private, invisible, feminized sphere of households.

The acknowledgement of the planet’s biophysical limitations also requires fiscal policies aimed at promoting environmentally-sustainable production, energy, and consumption models through taxation, expenditure allocation, regulatory changes, and readjustment of the prices of goods and services. This includes measures such as placing levies on the extraction and consumption of non-renewable resources, CO₂ emissions, and the elimination of subsidies that lead to environmental degradation, such as those applied to farming, fishing, and the transportation industry (Martens et al. 2014).

Lastly, fiscal policy’s major impact on governance should not be slighted. Because it rests upon a social contract between State and citizenry, based on the payment of taxes and representation, fiscal policy has enormous potential to promote both accountability and the development of institutional capacity (Garciamartín, Alonso and Gayo, 2006; Ghosh, 2007; Sáiz, 2013).

Fiscal policies must therefore oversee this social contract and, for this very reason, be geared towards combatting corruption and fraud, tax evasion and
avoidance, as well as to ensuring that major transnational companies meet their tax obligations through measures including mandatory registration of the true beneficial ownership of companies, foundations and trusts, requirements that major corporations provide country by country reporting, and automatic tax information exchange mechanisms. Implementation of mechanisms for transparency and citizens’ participation over the budgetary cycle is also an essential measure that should be included in fiscal policy coherent with development.

Globally speaking, it is fundamental for an intergovernmental body to be established to supervise global governance of international taxation where developing countries are not only represented but have full powers to participate.

4. AN APPROACH TO FINANCIAL POLICY FROM A POLICY COHERENCE FOR DEVELOPMENT PERSPECTIVE

Among the various ways in which financial policies can shape development, over the last few decades, priority has been attached to financial liberalization and deregulation policies formulated under the postulates of neoclassical theory. These consider that the liberalization of capital markets gives rise to more efficient allocation of investment and that the increase in capital flows, including direct foreign investment, will bring with it increased economic growth and therefore development.

However, decades of implementing such policies have brought to light the host of risks they entail in terms of financial fragility, exposure to financial and currency crises, social and environmental repercussions, and restrictions in governments’ ability to define their own social and economic policies (Chandrasekhar, 2007; Chowla, 2011; Ortiz y Cummins, 2012).

The financialization experienced by the world economy as a result of these liberalization and deregulation policies therefore stands as the first relevant element to analyse financial policy from a PCD approach. Manifesting itself through extraordinary expansion in financial activity, this process also leads to a transformation in the very functioning of the economic system, which becomes dominated by the rationale of financial capital where maximum financial profitability is an end in itself that comes to guide and condition the behaviour of the better part of economic actors, even in non-financial sectors of the economy (Medialdea and Sanabria, 2013).

A gradual divorce from the real needs of companies, States and citizens therefore ensues as financial policy becomes increasingly removed from its most relevant functions from the development perspective, including the provision of financial resources for economic agents, the coordination
of investment policies, the minimization of risks of opportunistic and speculative behaviour on the part of financial agents, and the prevention of financial practices wreaking weaknesses and vulnerability in the system (Chandrasekhar, 2007).

Failure to fulfill these functions has several major social and environmental repercussions. But perhaps one of the results that best reflects the hazards of this policy for citizens and the planet alike involves the spread of this quest for financial gains—often through speculative practices—to areas such as natural resources or agricultural commodities used for food, driving up food prices and triggering food crises, with devastating effects for millions of people.

In this regard, and from a feminist standpoint, it is important to underscore that financialization generates a hegemony of finance not only over the real economy, but also over human life and the planet. The short-term rationale, with profits realized in ever shorter periods, which financial capital imposes on the economic system, carries over to life itself and fails to respect the “existential horizons” of human beings and nature (Pérez, 2014).

Similarly, feminist economics denounces that the final adjustments stemming from the financial crisis which, as proven once and again, are triggered by liberalization and deregulation policies end up impacting households where non-remunerated work, performed mostly by women, proliferates due to cutbacks in public services and an increasingly precarious labour market (UN Women, 2012; Pérez Orozco, 2014).

Another element that takes on particular relevance in analysing PCD is foreign direct investment (FDI), the financial flow that has received most praise for its potentially beneficial effects on development through job creation, technology transfer, and generation of tax revenue, among other factors. Yet these effects are not automatic, but instead depend on a host of factors, mechanisms and processes that complicate the establishment of a direct relationship between investment and development (Olivié and Pérez, 2013).

When appraising FDI from a development perspective, it is essential not to simply consider such capital flows in quantitative terms, but instead evaluate the aspects linked to their quality and the conditions and commitments attached to them, i.e. tax exemptions, labour, social, and environmental rights concessions, or changes in regulatory frameworks, without overlooking the consequences of them all (AFRODAD et al. 2014). In this context, from the PCD perspective, it is interesting to analyse the Agreements on Reciprocal Promotion and Protection of Investments (ARPPI), one of the tools to promote FDI that has most been called into question due to its imbalance and for favouring investors’ rights over national sovereignty (Pérez, 2014). The degree of States’ commitment to
binding human rights and transnational legislation is another relevant area for analysis.²

Regarding the implications of these policies on governance, decades of liberalization and financial deregulation have led to an extraordinary concentration of power in financial capital, whose interests prevail over the functioning of the very economic system. It has conditioned the policies applied, not only strictly in economics and finance, but in a host of diverse other realms. Furthermore, financial capital’s tremendous complexity and opaqueness caused by these policies makes it extremely difficult, not only to oversee, but even to design and establish regulations (Chowla, 2011). At the same time, States, directly responsible for these policies, suffer from their consequences as they experience diminished sovereignty and increased vulnerability in the face of the power of finance (Medialdea and Sanabria, 2013).

This begets talk of the “dictatorship of the markets” since, given the constraints on raising revenue otherwise as a result of the neoliberal prescriptions applied over the last few decades, States resort to issuing debt on the financial markets. This tactic confers on investors and public institutions who acquire the debt tremendous power over States’ policies, involving requirements to prioritize repayment of the debt above and beyond any other obligation towards their citizens (Buendía, 2011).

Financial policies that are coherent with development should set their sights on regulatory systems that turn this situation around, and this necessarily involves reforming the world’s economic governance system to include mechanisms for participation, transparency and accountability so that global standards and regulations are geared to protect the interests of citizens around the world above and beyond the interests of capital, ensuring that finance is at the service of well-being (AFRODAD et al. 2014).

5. AN APPROACH TO TRADE POLICY FROM A POLICY COHERENCE FOR DEVELOPMENT PERSPECTIVE

A large portion of research analysing trade policy from the policy coherence with development perspective assigns trade policy a preponderant role. Yet there is no convincing, empirical evidence allowing clear conclusions to be drawn about the effects of trade liberalization on economic growth, and even less so on human development (Rodrik, 2012; Stiglitz and Charlton, 2007; UNPD, 2003).

² This may be done, for instance, by analysing the countries’ positions on initiatives such as the “The elaboration of an international binding instrument on transnational corporations and other business enterprises with respect to human rights” passed on 26 June 2014 by the United Nations Human Rights Council with votes against it from all of the developing countries on the Council (Moreno Izquierdo 2015).
In fact, there is broad consensus on the fact that, generally speaking, trade will not lead to an improvement in the situation of all people alike, but will rather generate winners and losers and therefore redistribution conflicts. (Rodrik, 2012). Conventional economic theory holds that, in general terms, the gains will outweigh the losses (at least in the long term), and that winners’ profits will be redistributed to compensate the losers, thereby generating an overall positive effect. In fact, however, the gains may be insufficient compared to the losses (Rodrik, 2012) and there are rarely compensation mechanisms, much less any that operate automatically. The groups benefitting from the situation usually resist the redistribution of their gains (Balakrishnan and Elson, 2008; Stiglitz and Charlton, 2007). Furthermore, even when redistribution systems are applied, their costs may be very high in terms of inefficiencies (Stiglitz and Charlton, 2007). It is also fairly normal for international trade, over the long term, to either have adverse effects on the same social groups (low skilled, low geographical mobility), thus contributing to enduring imbalances between winners and losers, or involve violations of human rights or commonly adopted standards.

Thus, arguments in favour of international trade are subtle and ambiguous (Rodrik, 2012) and their effects on development will depend on a host of factors related to each country’s structural characteristics and specific circumstances, as well as to the rules of the international trade system and the way each country fits into it. Therefore, the study of trade policy from a PCD perspective must go beyond approaches focusing solely on access to markets and must take trade into account as a means, but not as an end in itself.

In this context, a leading role will be accorded to analysing the rules and the very architecture of the trade system, which must be appraised according to the space and flexibility that countries are given to choose the institutional models they consider will provide them with the best results on development (Stiglitz and Charlton, 2007; Rodrik, 2012; UNPD, 2003).

Coherent trade policy must be contingent on compliance with human rights, environmental, social and labour standards that have been agreed internationally. Trade agreements must therefore be analysed to identify the areas posing risks to collective well-being, gender equality, the environment, food security, intellectual property rights, and basic services, among others. Likewise, countries must perform ex ante and ex post evaluations of these agreements from a development and human rights perspective, identifying those who have benefited and those who have been harmed by the agreements and establishing effective monitoring, compensation and reparation mechanisms (Balakrishnan and Elson, 2008).

The increased presence of transnational companies in international trade over the last few decades has provided an additional angle from which...
to examine trade relations, which have come to be characterized by the increasing relative weight of decisions taken by a very small group of large companies whose interests and objectives exert ever-growing influence on international markets (Lobejón, 2001). Coherent trade policies must therefore be based on a “broad national consensus”, underpinned by transparency and participation, to guide countries’ positions in trade negotiations in order to curtail the power of private interests to impose their own trade agenda (Gibbs, 2007).

6. IN CLOSING

The policy coherence for development approach underpinning the PCD index provides an alternative for analysing economic policy. By broadening the framework of analysis, this approach breaks through reductionist perspectives that view development in economistic terms, evaluating economic policies primarily on their contribution to economic growth. PCD-based analysis therefore promotes the inclusion of other perspectives, both from within and outside economics, which help capture the many dimensions and complexities that come into play.

This brief exploration of the three types of economic policy included in the Policy Coherence for Development Index has illustrated that citizens’ interests, human rights and care of nature have had only a marginal bearing on economic policy. The article highlights the minimum aspects that these policies should take into account in order to be considered fully coherent, i.e. life-sustaining in terms of persons and nature alike by defending public as opposed to “private” interests (rather than defending the fictitious opposition between domestic and foreign interests), recognizing the constraints posed by the biosphere in which we live, and firmly committed to citizens’ participation, transparency and accountability. All of this must be done with the conviction that the only chance of truly tackling the challenge of global development is through economic policies centered around the lives of people and the sustainability of the planet.
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