International Labour Organization

▶ ILO brief

▶ Policy Brief

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Fiscal policies to advance social justice: strategic entry points for trade unions to shape social development

Policy considerations

- **Fiscal policy is a central lever for social justice.** Decisions on public spending, taxation, and borrowing shape who benefits from economic growth, who contributes, and how rights are realized. Trade unions have a direct stake and the potential to influence these decisions to advance equitable and inclusive development.
- **Public spending drives decent work and social inclusion.** Investments in health, education, social protection, care, infrastructure, and green transitions create jobs, strengthen human capital, and break intergenerational poverty traps. Strategic public expenditure is essential for sustainable, inclusive development.
- **Taxation determines equity and fiscal capacity.** Progressive taxes on income, wealth, and profits expand resources for social investment, while regressive consumption taxes disproportionately burden low-income households. Trade unions can advocate for fairer tax systems to fund social justice and social development.
- **Annual budgets are the main vehicle for influence.** Understanding the budget cycle – from formulation to execution and oversight – enables unions to act strategically, engage at the right time, and defend social priorities despite fiscal constraints.
- **Multi-year frameworks enhance coherence and resilience.** Medium-term budget planning anchors annual decisions in strategic objectives, aligns fiscal choices with long-term social goals, and strengthens counter-cyclical capacity and resilience, ensuring continuity of investment in decent work and social development.
- **Combine short-term advocacy with long-term vision.** By embedding demands in a longer-term and strategic plan, promoting coherence, transparency, and fiscal accountability, trade unions can steer public resources toward social justice, safeguard workers during crises, and foster inclusive structural transformation.
- **Strategic engagement requires multiple entry points.** Trade unions can influence fiscal policy through social dialogue institutions, ministries, legislatures, political parties, public administrations, and regional or supranational bodies. Timely, evidence-based advocacy combined with coalition-building maximizes impact.

1. Introduction

Fiscal policy – the collective public choices on spending and resource mobilization – is one of the most powerful and direct levers available to workers' organizations to advance social justice. Unlike monetary policy, typically delegated to relatively independent central banks and largely insulated from public debate, fiscal policy is decided by governments.[1] This gives workers and their unions a tangible pathway to influence decisions that profoundly affect people's lives.

More than a technical exercise in managing budgets and taxes, fiscal policy expresses the social contract between citizens and the state. It defines who contributes, who benefits, and whose needs are prioritized. Through these choices, governments operationalize rights – by financing health, education, care, pensions, infrastructure, and public services. For workers, the implications are immediate: whether childcare enables women to participate in the labour market; whether public investments and procurement create decent, domestic jobs; and whether wage floors and pensions are adequately funded.

Fiscal policy is also a cornerstone of inclusive structural transformation, without which sustainable development and decent work for all cannot be achieved. Budgets ultimately determine the scale and direction of resources available to support a coherent and integrated mix of public policies – from industrial upgrading and labour market measures to social protection systems and just transition strategies. When designed for inclusion, fiscal policy serves as a powerful instrument to promote decent work, productivity, and social justice.[2]

Yet, such transformative fiscal policy demands both resources and political will. Limited fiscal capacity – due to narrow tax bases, costly debt servicing, and borrowing constraints – forces difficult trade-offs that frequently have adverse effects on workers and their families. In many countries, interest payments already rival or exceed public spending on health and education (UNCTAD 2025). Unions should therefore engage in the decisions that determine whether scarce resources protect people or deepen inequality.

Despite these constraints, fiscal policy remains a decisive instrument to shape fairer, more resilient, and inclusive societies. Through equitable taxation, targeted public investment, pro-employment and gender-responsive budgeting, and well-designed counter-cyclical measures, governments can reduce inequality, support decent work, and strengthen social cohesion.

In today's world of overlapping crises – widening inequality, climate emergencies, sovereign debt distress, geopolitical tensions, and the resurgence of austerity – fiscal choices have life-or-livelihood consequences for working people. Rising allocations to non-social sectors, for instance military expenditures, are likely to further restrain the fiscal capacity for social investment. This comes precisely as the world prepares for the Second World Summit for Social Development (WSSD2) in November 2025, thirty years after Copenhagen – a timely reminder that the pursuit of social justice begins with fair and transformative fiscal policies.

This policy brief provides a strategic framework and practical guidance for trade unions to understand and influence fiscal policy in ways that advance social justice. Section 1 explains how fiscal policy choices shape economies and societies, outlining the trade-offs and decisions that determine the distribution of resources. Section 2 turns to the main vehicle through which fiscal policy is implemented – the annual budget – and examines its legal, institutional, and procedural dimensions, as well as the fiscal constraints that shape public choices. Section 3 explores how multi-year budget frameworks can strengthen coherence, predictability, and fiscal capacity, creating space for long-term investment in decent work and inclusive development. Finally, Section 4 identifies the key aspects of fiscal policy that workers' organizations can influence, highlights entry points for effective engagement, and proposes strategies to ensure fiscal decisions are aligned with the objectives of social justice and inclusive development.

[1] See the dedicated policy brief – part of the ACTRAV Resource Package on macroeconomic policies – for a comprehensive discussion on macroeconomic policies, including monetary regimes and policy options: Advancing Decent Work through Macroeconomic Policy Coherence: Perspectives for Trade Unions (ILO 2025a).

[2] See the dedicated policy brief – part of the ACTRAV Resource Package on macroeconomic policies – offering strategic guidance to the trade union movement on structural transformation: Unions at the Heart of Change: Shaping Inclusive and Decent-Job-Rich Structural Transformation (ILO 2025b).

2. Fiscal policy: trade-offs and choices that shape economies and societies

Fiscal policy refers to the use of public spending and government taxation to influence a country's economic performance and social outcomes. It comprises two main instruments: public expenditure and taxation – together shaping how resources are raised, distributed, and used to achieve collective goals.

Public expenditure (or public spending) policies determine how governments allocate resources to social protection, healthcare, education, public administration, infrastructure, and other essential goods and services. Taxation policies define how the State mobilizes revenues – through taxes on income, wealth, profits, and property, or on consumption such as value-added or sales taxes.

Fiscal policy operates through two main channels:

- **Discretionary policies** – Deliberate, often temporary changes in spending or taxes adopted through budgets or stimulus packages. When designed with a long-term vision, they can promote job-rich structural transformation and inclusive growth.
- **Automatic stabilizers** – Built-in mechanisms such as progressive income taxes and social protection schemes that adjust automatically to economic fluctuations, cushioning downturns and stabilizing recovery.

Too often dismissed as a merely technical matter, fiscal policy is in reality a central pillar of a nation's social contract – it determines who contributes, who benefits, and which collective goals are prioritized. Fiscal choices literally determine where public resources come from and how they are used, shaping the quality of schools, hospitals, public services, and social protection systems – whether there is funding for childcare that fosters women's labour participation, decent pensions and wage floors, or public investments in infrastructure that create good jobs. Because these outcomes form the very foundation of social justice and inclusive development, trade unions can play a central role in fiscal debates and decision-making.

As Richard Musgrave (Musgrave 1959) argued, fiscal policy performs three essential functions: allocating resources, redistributing income, and stabilizing employment and prices:

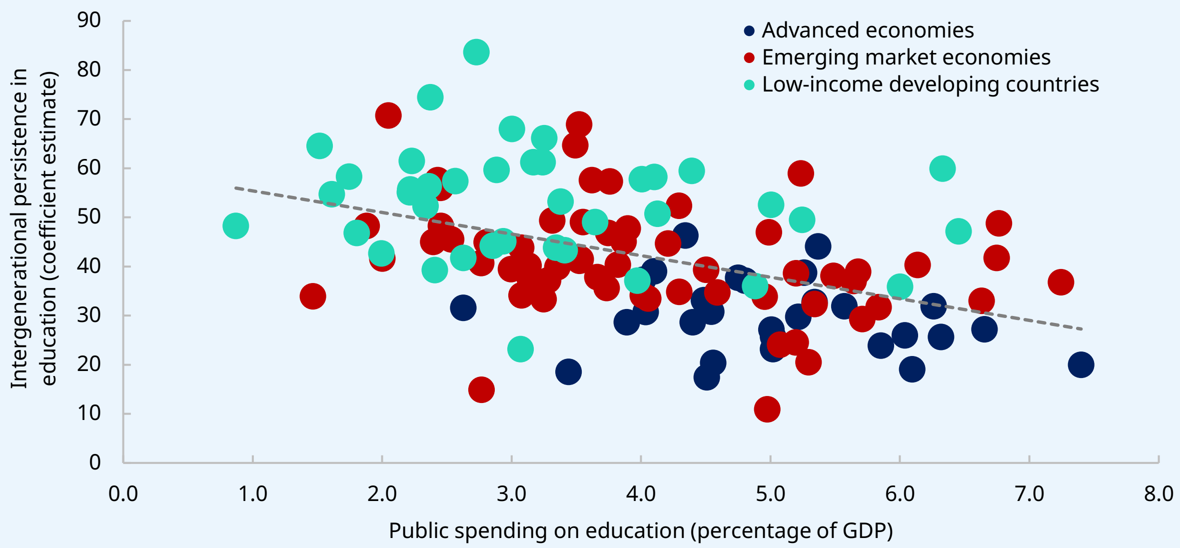
- **Resource allocation** – Financing and delivering public goods and infrastructure – such as energy and water systems, transport networks, digital connectivity and institutional capacities – that markets alone would under-provide, thereby supporting productivity, social inclusion and environmental sustainability.
- **Redistribution** – Ensuring a fairer distribution of income and wealth through progressive taxation and targeted social spending (for example, social protection schemes, unemployment and old-age benefits, and universal access to quality healthcare and education). This function is central to promoting equity, reducing poverty and enabling all members of society – especially workers and their families – to share in the benefits of economic progress.
- **Stabilization of the economy** – Using fiscal tools, in particular automatic stabilizers and counter-cyclical policies, to stimulate or moderate aggregate demand through public investment and household support measures in order to sustain high employment, stable prices, and steady and inclusive economic activity during good and difficult times alike.

The following explore how public spending and taxation – when coherent and equitable – can become powerful drivers of social justice and sustainable development.

2.1 Public spending: A powerful engine of sustainable development

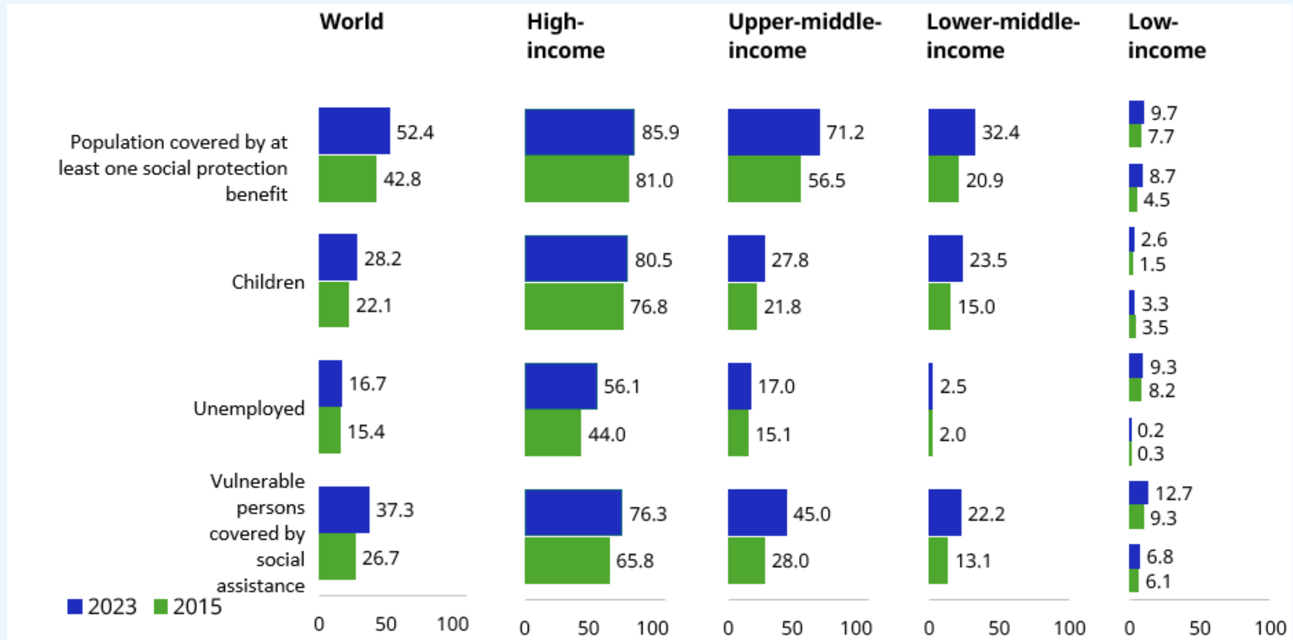
When well-designed and equitably allocated, public spending drives both short-term demand and long-term inclusive growth. Investment in health, education, and care strengthens human capital, enhances labour productivity, and expands equality of opportunity. Empirical evidence shows that countries investing more in education enjoy greater social mobility: children tend to surpass their parents' educational level. **Figure 1** illustrates that intergenerational persistence in education tends to decline as a country increases its investment in public education, a trend particularly evident in advanced economies. Such investments break intergenerational poverty traps, foster inclusion, social cohesion and peace, and reinforce the foundations of social justice and sustainable development.

▶ Figure 1. Spending on education and intergenerational mobility (cohort born in the 1980s)



Note: Education persistency in adulthood is for the cohort born in the 1980s (derived as the regression coefficient in a simple regression of child's education on parental education).
Sources: IMF Fiscal Monitor Data (IMF 2021) using United Nations Educational, Scientific and Cultural Organization (UNESCO); World Bank Global Database of international Mobility; and IMF staff estimates.

▶ Figure 2. SDG indicator 1.3.1 on effective social protection coverage, global, regional and income-level estimates, by population group, 2015 and 2023 (percentage)



Source: ILO, World Social Protection Report 2024–26: Universal Social Protection for Climate Action and a Just Transition, 2024.

Public investment in sectoral and industrial policies, infrastructure, digitalization, and green transition also yields large multiplier effects – creating decent jobs, supporting productivity, and driving inclusive structural transformation.

Social protection systems, when universal, rights-based and adequately financed, play a critical and complementary role. Benefits for unemployment, parental leave, pensions, or sickness do more than protect individuals: they act as automatic stabilizers that sustain consumption, preserve employment, protect from poverty and exclusion, and bolster resilience. Yet coverage remains far from universal – as of 2023, only about half the world's population (52.4 per cent) was covered by at least one social protection benefit, leaving nearly 3.8 billion people unprotected, mostly in low-income or crisis-affected countries (ILO 2024). **Figure 2** shows the scale of the coverage gap.

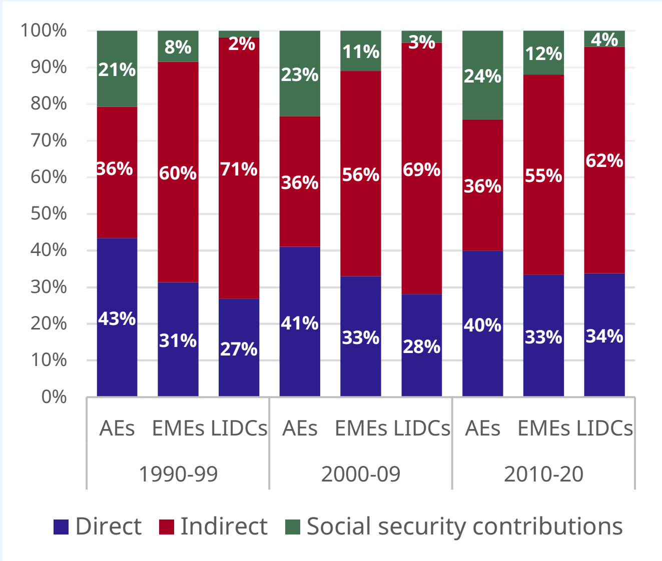
Recent policy shifts in advanced economies demonstrate that strategic, large-scale spending is politically possible. During COVID-19, the European Union activated its "general escape clause," allowing exceptional spending to protect lives and jobs. Germany amended its constitutional "debt brake" in 2025 to fund infrastructure and defence through a €500 billion special fund. Japan's 2023 stimulus package – worth up to ¥21 trillion – financed high-tech and green investment, temporarily setting aside deficit-reduction targets. These cases underscore that with the right governance mechanisms, governments can mobilize increased public spending to pursue strategic goals (European Commission 2020). By contrast, austerity-driven cuts have consistently exacerbated inequality and undermined resilience.

2.2 Taxation: Funding social justice or deepening inequalities

Public spending depends on public revenue – and how that revenue is raised determines whether fiscal systems reduce or reinforce inequality.[3] Taxes on income, wealth, and property can be designed progressively to enhance equity and expand fiscal capacity. Conversely, indirect taxes such as broad-based consumption taxes – value-added tax, tariffs, and other sales taxes – are inherently regressive, placing a heavier burden on lower-income households, taking a larger share of low-income households' budgets. This makes tax design a frontline issue for trade unions, as it directly affects income distribution, household living standards, access to essential services, and the ability of governments to fund decent work and robust social protection.

In practice, however, low- and middle-income countries rely heavily on indirect taxes which are easier to administer: between 2010 and 2020, such taxes accounted for roughly 62 per cent of total tax revenue in low-income developing countries, 55 per cent in emerging market economies, and 36 per cent in advanced economies. **Figure 3** illustrates changes in tax composition between 1990 and 2020, revealing that direct taxes – including those on income, wealth, profits, and property, which can be progressive when well-designed – have remained underutilized in low- and middle-income countries, consistently accounting for only around 30 per cent over the past three decades (Benedek, Benítez and Vellutini 2022; IMF 2023a).

▶ **Figure 3. Composition of tax revenues, by income group, 1990–2020 (in percentage of total tax revenues)**



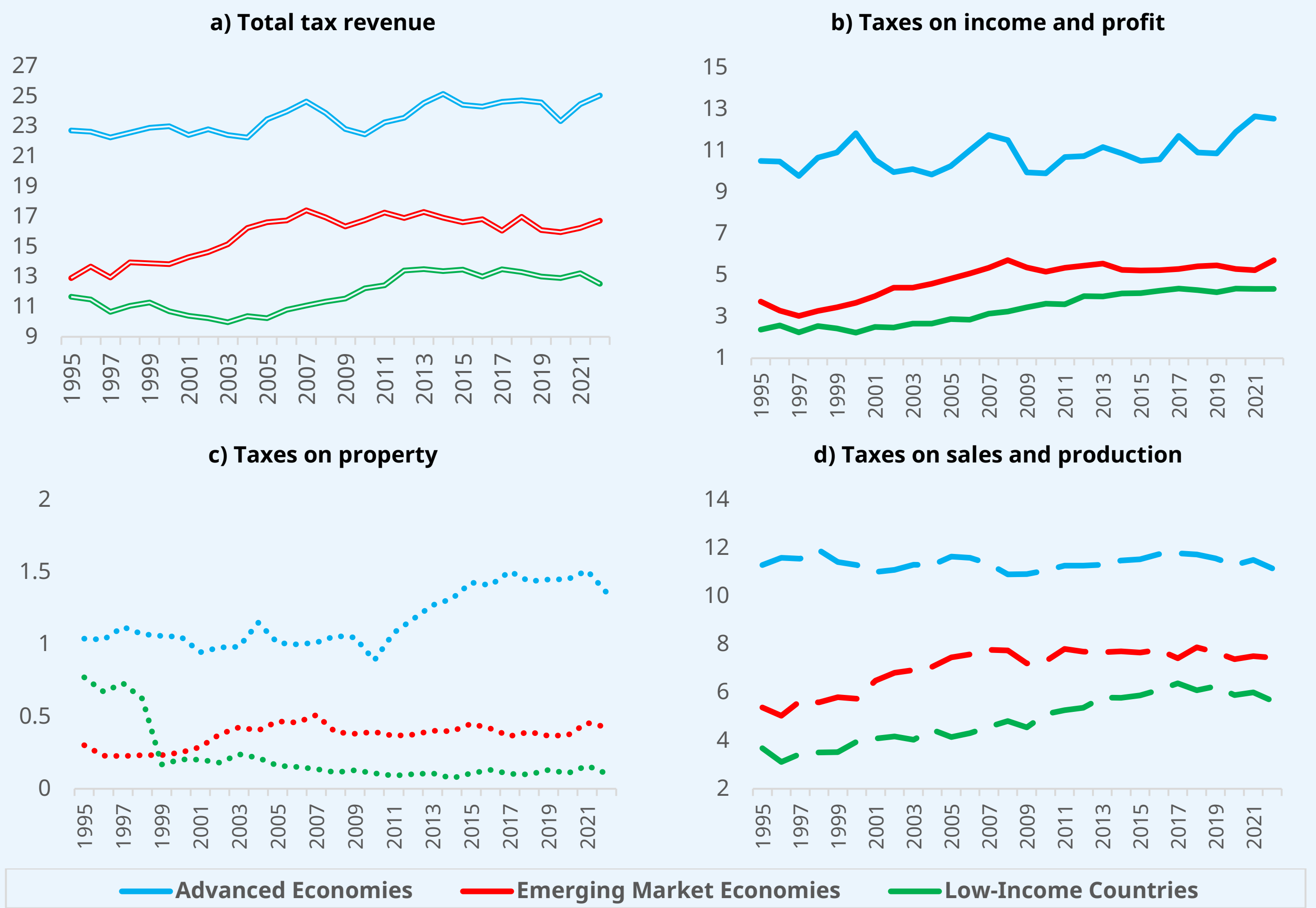
AEs = Advanced Economies. **EMEs** = Emerging Market Economies. **LIDCs** = Low-Income Developing Countries.
Source: Data extracted from (IMF 2023a).

[3] Although the possibility of resorting to external resources to finance expenditure exists, including debt, which we will come back to in the next section, the uncertainties and difficulties surrounding this possibility mean that the Government focuses primarily on its taxation policy to mobilize resources.

This reliance on indirect taxes – placing unfair burden on those least able to pay and limiting the redistributive power of fiscal policy – is not inevitable: it usually reflects political choices that favour easier-to-collect taxes, large-scale informality and undeclared work – 8 out of 10 economic units operate outside the formal economy and informal employment often exceeds 80 per cent in some regions (86 per cent in Africa) (ILO 2018) – and limited tax administration capacity. As a result, when governments are pressed to expand fiscal capacity, they often resort to indirect taxes: administratively convenient, but regressive in impact.

Figure 4 shows that tax revenues remain significantly lower in emerging market economies and low-income countries compared to advanced economies. While the trend has been relatively stable over the past three decades, a slight increase can be observed. In emerging market economies and low-income countries, this increase appears rather pronounced in taxes on sales and production (indirect taxes) than in direct taxes such as income and profit taxes. This may reflect the persistently high levels of informality, which limit the tax base and constrain governments' ability to collect taxes from informal incomes and businesses. For example, in Africa, informality declined only marginally from 84.6 per cent in 2004 to 84 per cent in 2024.

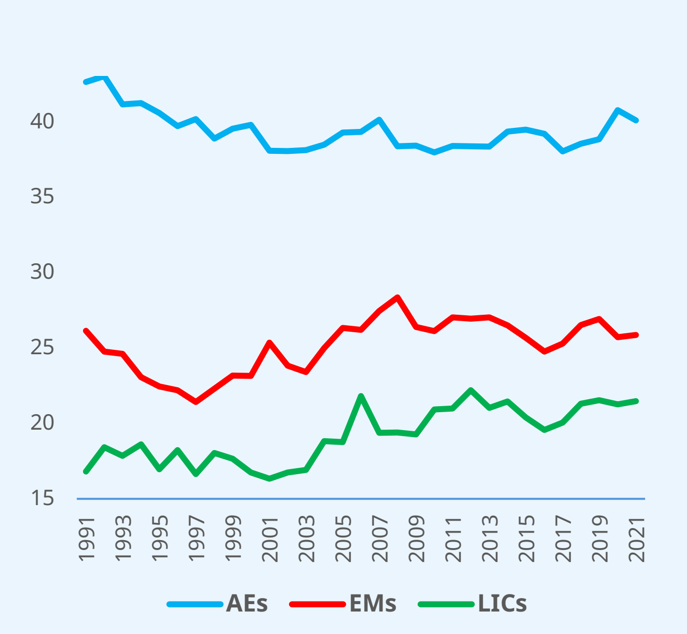
▶ **Figure 4. Evolution of total tax revenues and main components, by income group, 1995–2021 (as a percentage of GDP)**



Note: Total tax revenues primarily consist of (i) taxes on income and profits, (ii) property taxes, and (iii) taxes on sales and production. The figure, with each series expressed as a percentage of GDP, illustrates how total tax revenues and components have evolved over the past three decades.
Source: Authors' calculations based on data from the IMF's World Revenue Longitudinal Database (WoRLD), a comprehensive dataset tracking government revenue trends since the early 1990s.

It could be assumed that other revenue sources – particularly non-tax revenues from extractive industries – might help expand overall government revenues available for development spending. However, **Figure 5** shows that total revenues (including both tax and non-tax sources) have increased only slightly, and EMs and LICs continue to lag far behind AEs. This suggests that structural constraints persist in domestic resource mobilization. In this context, strengthening fiscal capacity will likely require structural transformation to promote economic diversification and greater formalization of economies and employment, alongside efforts to improve the effectiveness of tax systems.

▶ **Figure 5. Total revenue, by income group, 1991–2021 (in percentage of total tax revenues)**



AEs = Advanced Economies. **EMs** = Emerging Market Economies. **LICs** = Low-Income Countries.
Note: The figure, with each series expressed as a percentage of GDP, illustrates how total revenues have evolved over the past three decades.
Source: Authors' calculations based on data from the IMF's World Revenue Longitudinal Database (WoRLD), a comprehensive dataset tracking government revenue trends since the early 1990s.

Overall, the continued reliance on indirect taxation, combined with limited progress in direct tax reform, means that low-income households bear a disproportionate share of the tax burden in many developing and emerging economies. Meanwhile, tax avoidance practices, profit-shifting, and non-transparent tax incentives can result in less fair contributions by high-income individuals, corporations, and multinationals – widening the gap between statutory obligations and actual payments and weakening the redistributive function of fiscal policy.

Evidence from the World Inequality Lab shows that the richest 1 per cent captured around 38 per cent of global wealth growth since the mid-1990s, compared with just 2 per cent for the poorest half of the world's population (Chancel et al. 2021). This growing concentration of income and wealth underscores the urgent need for greater progressivity in the taxation of income, profits, and wealth – even in advanced economies.

Trade unions can play a decisive role in reshaping tax systems to serve social justice rather than deepen inequality. A strategic agenda for union engagement should combine immediate advocacy with long-term structural vision. Concretely, unions can (ILO 2022; OECD 2025; UN 2024):

- **Promote progressive tax reform** by shifting the burden toward income, profit, and wealth, while limiting regressive reliance on consumption taxes.
- **Defend low-income and vulnerable households** by demanding compensatory mechanisms – such as targeted transfers, subsidies for essential goods, or social protection floors – when indirect taxes are raised.
- **Ensure social and distributional impact assessments** for all major tax reforms, advocating ex-ante analysis of impacts on income groups, gender equality, and employment.
- **Advance fair corporate taxation** by advocating for governments' measures to curb profit-shifting through stronger transfer pricing rules, international coordination, and public country-by-country reporting. Tax incentives should be transparent, time-bound, and linked to decent work and sustainable investment outcomes.
- **Align fiscal and climate justice** by supporting equitable environmental and carbon taxes whose proceeds fund social protection, worker retraining, and green infrastructure – ensuring that decarbonization costs do not fall on low-income households.
- **Promote digital-era tax fairness**, calling for taxation models that capture value created in digital and platform economies and allocate revenues to social protection and digital inclusion.

- **Build alliances for tax justice** with civil society, academics, and other potential allies, influencing global and regional processes such as the UN Framework Convention on Tax Cooperation, the OECD/G20 Inclusive Framework, and African or Latin American platforms on domestic resource mobilization.

By combining short-term advocacy for fairness with a long-term vision of progressive fiscal transformation, trade unions can reposition themselves as central actors in shaping equitable fiscal compacts. Recent protests against regressive finance bills have demonstrated how such taxation can erode trust in public institutions and undermine social cohesion. A justice-oriented approach to taxation, anchored in transparency, progressivity, and accountability, can help unions drive fiscal reforms that sustain decent work, social justice, and democratic legitimacy.

2.3 Fiscal policy as a political choice: coherence, participation, and transformation for social justice

Building on the previous discussion, it is crucial to recognize that fiscal policy is never neutral – it expresses political choices about who contributes, who benefits, and what kind of society we build. Decisions to fund social protection or military expenditure, to raise progressive taxes or grant corporate exemptions, reflect competing priorities and power relations that ultimately determine social outcomes. Fiscal design ultimately determines whether inequality is perpetuated or reduced, and whether societies move toward inclusion.

Coherence between taxation and spending is the foundation of fiscal justice. Revenue and expenditure policies must pursue a shared objective: promoting decent work, equality, and sustainable development. Progressive spending financed through regressive taxes cancels its own redistributive effect – but when spending and taxation align, they reinforce fairness, social cohesion and trust in public institutions.

In many low- and middle-income countries, limited fiscal capacity constrains governments' ability to finance inclusive development, forcing difficult trade-offs. Such decisions must be judged not only by fiscal ratios but by their social-justice impact – who gains, who loses, and what happens to jobs, to essential services, and to vulnerable groups. Trade unions can advocate for a "social-justice test" in fiscal policymaking, advocating measures that protect low-income households, sustain productive investment, advance gender equality, and drive green and digital transitions.

Furthermore, fiscal policy becomes even more transformative when it is coherent and aligned with long-term national strategies. Strategic public investment in infrastructure, sectoral and industrial development, care, education, and climate adaptation drives inclusive structural transformation, formalization, and the creation of decent jobs. Financing such an ambitious agenda could, when appropriate, require public borrowing, which should be undertaken strategically, transparently, and responsibly. When managed well, the resulting transformation of the economy and society creates a virtuous circle – expanding decent work opportunities, boosting productivity, strengthening domestic revenues, and increasing governments' capacity to invest in social justice and inclusive development, while ensuring sustainable debt management.

Meaningful participation is what makes coherence lasting. Fiscal governance must be democratic, transparent, and accountable. Trade unions should engage at every stage of the budget process – from setting fiscal priorities to monitoring results – to ensure that resources reach those most in need and that trade-offs are openly negotiated rather than imposed. This requires stronger fiscal literacy, broad-based alliances across the labour movement, and evidence-based advocacy to shape national debates on taxation, spending, and debt. The next section examines how annual budgets and medium-term fiscal frameworks can institutionalize such coherence – anchoring fiscal choices in transparent, participatory, and forward-looking processes that connect today's decisions with tomorrow's goals of decent work and social justice.

3. Fiscal policies and the annual budget

Building on the previous discussion, fiscal policy becomes real through the national budget – the government's annual operational plan translating policy intentions into concrete spending and revenue measures. The national budget is the main vehicle through which fiscal policy is implemented, determining how public resources are mobilized, allocated, and monitored. It signals a government's fiscal priorities and its commitment (or lack thereof) to decent work, social justice, and sustainable development.

While budgets are typically short-term instruments, covering a single fiscal year, their decisions can shape a country's development trajectory for decades – influencing employment, equality, and social outcomes well beyond the annual cycle. Hence, annual budgets must be strategically aligned with medium-term fiscal frameworks to ensure coherence, predictability, and long-term strategic planning.

Every State's budget is subject to legal and institutional procedures that determine how fiscal priorities are set, negotiated, approved, and monitored. Typically, the process culminates in a Finance Act or equivalent instrument, adopted by the legislature or representative bodies, before the budget is enacted.[4] Understanding this process is essential for trade unions, as it reveals where real policy trade-offs occur, where influence can be exercised, and how social priorities can be advanced or sidelined.

3.1 Understanding the legal and institutional framework

To effectively engage in fiscal governance, it is essential to understand the legal foundations of public financial management, which usually rest on three interconnected layers (Potter and Diamond 2004; Allen, Hemming and Potter 2013):

- **Constitutional provisions** – Defining the core budgetary powers of the Executive and Legislature. Constitutions (or equivalent) typically assign the preparation and execution of the budget to the Executive, while giving Parliament (or equivalent bodies) the authority to approve and oversee it.
- **Organic public finance laws** – Operationalize constitutional principles and set the permanent framework for public finance management, notably the fiscal calendar and budget timetable, macroeconomic assumptions, roles for treasury/budget offices and audit institutions, and transparency obligations.
- **Ordinary laws and instruments** – Provide the more specific legal tools of public finance, including the annual Finance Act / Finance Bill, tax codes, and special laws regulating specific funds or agencies (for example, social security financing).

3.2 Understanding the budget process and identifying where influence can happen

Although procedures differ by country, most budget systems follow four recurring phases, each offering potential entry points for trade-union engagement.

- **Formulation of the Finance Bill or Act (Executive-led)** – Usually beginning several months before the fiscal year, this phase is managed by the Ministry of Finance. It includes: (i) economic and fiscal forecasts; (ii) strategic priority setting; (iii) negotiations among line ministries for budget allocations; and (iv) drafting of the Finance Bill.
  - This is where the real policy trade-offs occur – which sectors are prioritized, which are left behind, and how much fiscal capacity is allocated to social investments. Yet, trade unions and civil society often have limited visibility or voice at this stage.
  - **Union engagement:** Advocate for early consultations with social partners, public hearings, and fiscal transparency; publish alternative budget proposals and promote spending priorities before the draft is finalized.
- **Approval (Legislative stage)** – Parliament reviews and debates the draft Finance Bill. It may: (i) amend the bill (where allowed by law); (ii) request clarifications and hearings with ministers; (iii) vote to authorize or reject the budget.
  - The power of Parliament varies in some countries – in some systems Members of Parliament (MPs) can amend, in others they can only approve or reject the bill as presented. In any case, by their vote to approve the budget, MPs have a certain amount of power to influence the budget.
  - **Union engagement:** This stage often includes public debates, committee hearings, and media scrutiny. It is an opportunity to mobilize public opinion and advocate back against regressive measures.

[4] The Finance Bill is the proposal prepared by the government and to be approved the legislative body. The Finance Act gives effect to that proposal when it is voted and approved.

- **Execution (Government implements)** – Once enacted, the budget becomes law. Ministries and agencies implement programs, while the Treasury manages revenue collection. Governments may issue supplementary budgets or make mid-year reallocations in response to unexpected events.
  - Legal rules dictate: (i) when Parliamentary approval is needed; (ii) what ceilings exist for adjustments; (iii) who authorizes transfers between budget lines.
  - **Union engagement:** Monitor budget execution in real time, track wage-bill implementation, and scrutinize discretionary or off-budget spending. Demand timely publication of spending reports and accountability for deviations from approved allocations.
- **Control and oversight (Accountability stage)** – Audit institutions, parliaments, and sometimes independent bodies monitor implementation.
  - Oversight mechanisms examine compliance, efficiency, and transparency, approving final accounts and identifying irregularities. In strong systems, finance committees or audit courts have the power to investigate and publish findings. In weak systems, this stage is often neglected or non-transparent.
  - **Union engagement:** Monitor spending on employment-related programs; advocate for stronger transparency and audit mandates; advocate for public budget portals and accessible data; and build alliances with civil society and journalists to expose under-execution of social budgets, mismanagement or corruption.

Understanding how these stages interact enables unions to act strategically – engaging at the right time, in the right forum, with evidence-based proposals that defend workers' and wider social priorities. However, even the most participatory budget process is bounded by a government's fiscal capacity – its real spending capacity to raise and allocate resources in support of social justice and inclusive development.

3.3 Fiscal capacity: The core constraint on budget choices

In this policy brief, fiscal capacity is understood as a government's ability to raise and allocate resources for public priorities. It defines how much resource and room for manoeuvre is available to policymakers to invest, for instance, in social protection, decent work, and inclusive development, while maintaining solvency. In practice, three strategic challenges shape this "room for manoeuvre": revenue generation, the structure of the tax system, and debt conditions and management.[5]

- **Tax revenue gaps:** As shown in the previous section (see Figures 4 and 5), tax-to-GDP ratios – key indicators of fiscal capacity – remain significantly lower in poorer countries, constraining governments' ability to finance transformative agendas for decent work and social justice. On average, the tax-to-GDP ratio stands at around 12.5 per cent in low-income countries, compared with 16.7 per cent in emerging market economies and over 25 per cent in advanced economies. This gap is critical, as evidence suggests that countries with tax ratios above roughly 15 per cent of GDP are better positioned to finance development and sustain inclusive growth. Yet, many low-income developing countries remain below this threshold, with trends largely stagnant, showing limited progress. As a result, their capacity to finance employment and social protection systems, quality public services, and broader social development remains severely constrained (IMF 2016).
- **A narrow tax base:** Fiscal capacity is further constrained when only a small share of economic activity is taxed. High informality shrinks payroll and corporate tax bases, weakens social contribution systems, and undermines compliance. At the same time, cross-border tax leakages – through evasion, undeclared offshore wealth, and profit-shifting – drain hundreds of billions of dollars annually from developing countries. While international initiatives such as the OECD/G20 BEPS project and the global minimum tax mark progress, their reach and

[5] This policy brief uses the term "fiscal capacity" for clarity. It is closely related to the more technical term fiscal space, which economists use to describe the room a government has to finance spending without jeopardizing its solvency or debt sustainability. Fiscal space is intrinsically linked to a country's ability to service its debt over the long term. Our use of "fiscal capacity" focuses on the foundational ability to generate and manage resources for public goals.

enforcement remain partial (OECD 2021; Oxfam and Tax Justice Network 2023).[6]

- **Debt access and constraints:** When domestic revenues are insufficient, responsible borrowing can expand fiscal capacity for productive investment. However, developing countries often face higher borrowing costs and limited access to credit, reflecting weaker institutions and perceived risk. During the COVID-19 crisis, advanced economies with debt-to-GDP ratios above 100 per cent mobilized massive fiscal responses, while low-income countries – despite lower initial debt levels (around 43 per cent in 2019) – could increase borrowing only marginally (to 48 per cent in 2020), severely constraining their ability to finance recovery and transformation. Medium-term projections suggest that debt levels for low-income countries will decline slightly, leaving them with limited fiscal manoeuvring room for many years to come (IMF 2023b).

Because annual budgets are constrained by fiscal capacity, governments benefit from multi-year planning that smooths trade-offs and makes spending commitments credible. The next section examines how multi-year budget frameworks can help governments manage fiscal constraints more strategically – anchoring social priorities in medium-term planning and ensuring that annual budgets steadily advance inclusive and sustainable development.

4. Anchoring social justice into medium- and long-term strategic planning: the multi-year budget framework

As previously highlighted, fiscal policy can be anchored in a multi-year budget framework (MTBF), which supports medium-term strategic planning to achieve broader, sustainable development goals while safeguarding fiscal sustainability. Like the annual budget, it combines projected expenditures and revenues into a coherent package, but with a longer horizon – typically three to five years. This extended timeframe allows policies to be implemented sequentially and consistently, in line with longer-term objectives, such as development strategies.

Many developing countries already use MTBFs, or similar tools such as Public Investment Programs (PIPs), to link resource allocation with long-term political and development visions. When properly designed, MTBFs can enhance policy coherence, accelerate the financing of development programmes, and provide a robust framework for job-rich structural transformation (ILO 2025b). Their potential for sustained societal impact is even greater than that of the annual budget, which is why it is essential for trade unions and social partners to engage actively and ensure that MTBFs contribute to social justice.

The MTBF does not replace the annual budget but provides its strategic compass. Annual budgets become operational plans derived from medium-term objectives, enhancing discipline, predictability, and coherence over time. This alignment ensures that fiscal policy not only balances revenues and expenditures annually but also advances a long-term political and developmental agenda.

4.1 Coherence and integration

A well-designed MTBF serves as the fiscal backbone of any credible structural-transformation strategy. Anchored to clear objectives and a realistic macroeconomic framework, it enforces two essential corrections: it brings recurrent and capital spending into a single planning envelope, and it aligns year-to-year budget choices with medium-term policy priorities. This overcomes a common weakness in many countries, where investment budgets (public investment programmes) run in parallel to recurrent budgets – a separation that undermines implementation, reduces value for money, and disconnects projects from the services and institutions needed to sustain them.

Properly integrated, the MTBF converts annual budgets from isolated exercises into successive instalments of a longer political programme. It makes the government's development strategy auditable, predictable, and programmable: ministers can plan multi-year projects knowing that operating budgets and staffing will follow; financiers can assess credible repayment and sustainability paths; and social partners can monitor progress against job- and inclusion-related indicators. Without such integration, fiscal policy risks fragmentation,

[6] Oxfam and the Tax Justice Network estimate that governments worldwide lose over $472 billion annually to tax evasion, illicit financial flows, and corporate profit shifting – losses that disproportionately drain revenues from low- and middle-income countries (Oxfam and Tax Justice Network 2023).

inefficiency, and recurrent policy reversals – all of which weaken prospects for inclusive, job-rich growth.

Increasingly, MTBFs are complemented by fiscal compacts and SDG-based budgeting tools – such as the UN's Integrated National Financing Frameworks (INFFs) – to ensure that resource allocation and fiscal discipline are directly aligned with national development goals and the broader pursuit of social justice.

4.2 Efficiency, discipline, and fiscal sustainability

MTBFs also improve the efficiency of resource use, particularly in contexts of constrained fiscal capacity or debt concerns. Anchored in credible macroeconomic projections, they promote realistic revenue forecasts, stronger prioritization of spending, and improved execution discipline. By reducing incentives for "political myopia" – short-term spending aimed at electoral gains (see Ebeke and Olcer 2013) – MTBFs help governments focus on long-term investments that expand decent work opportunities, enhance human capital, strengthen inclusion, and build resilience.

Greater predictability also supports responsible debt management. By clearly linking borrowing to well-defined investment projects with demonstrable socio-economic returns, MTBFs strengthen fiscal credibility and investor confidence. This facilitates access to financing for ambitious development projects, while freeing fiscal capacity for social spending in health, education, and social protection.

4.3 Counter-cyclical capacity and resilience

MTBFs also enhance the government's counter-cyclical capacity, enabling the integration of automatic stabilizers and other contingency mechanisms into medium-term planning. This allows governments to preserve development gains and protect vulnerable populations during downturns, while rebuilding fiscal buffers in periods of growth.

The experience of the Republic of Korea during the Asian financial crisis illustrates this point. Despite a severe contraction in 1998 (GDP fell by 6 per cent, unemployment tripled), the government deployed expansionary fiscal measures – strengthening social security and tripling employment insurance funding – thanks to medium-term fiscal planning that had created sufficient capacity. Subsequent reforms restored credibility and reinforced resilience, demonstrating the value of strategic multi-year budgeting (OECD 1999).

4.4 Conditions for success: what workers can defend to realize the promise of social justice

Multi-year budgeting offers valuable opportunities to advance social justice through better policy coherence, fiscal accountability, and strategic planning. However, these benefits are not automatic; they rely on several critical conditions that workers' organizations can actively defend and promote to ensure meaningful impact:

- **Clear political guidance and strategic coherence.** The MTBF must be anchored in a well-defined political programme with coherent, ambitious objectives for social and economic transformation. Workers should demand transparent articulation of these goals, ensuring that budgets consistently prioritise decent jobs, equity, and investments in health, education, social protection, and other essential services. This strategic clarity prevents fragmentation of policies and safeguards long-term commitments from short-term political pressures.
- **Credible macroeconomic framework based on robust data.** Accurate forecasting and realistic economic assumptions are essential for setting attainable budgets that respond to real-world challenges. While investing in economic literacy and analytical skills, unions should insist on transparency regarding data sources, macroeconomic projections, and assumptions underpinning fiscal plans. Overly optimistic or politically motivated forecasts should be challenged because they risk undermining budget credibility and social outcomes.
- **Strong technical and institutional capacity.** Effective multi-year budgeting depends on competent, well-resourced public finance institutions capable of detailed planning, continuous monitoring, and rigorous evaluation. Trade unions should advocate for strengthening tax administrations and finance ministries, emphasising independent expertise and coordination across agencies. Capacity-building ensures that budgets are not only well-designed but also executed effectively.
- **Participation, oversight, transparency, and accountability.** Medium-term budgeting only improves

outcomes when subject to genuine democratic scrutiny; without it, resources risk being diverted through inefficiency, corruption, or inequitable allocation of resources. Trade unions, working where possible in alliance with civil society, can advocate for a formal participation, embedded in legal and institutional frameworks, securing seats at the table in budget planning and monitoring processes. They should demand systematic public reporting on progress and insist that fiscal choices undergo a "social justice test", assessing their impact on inequality, employment, and social protection

5. How could workers' organizations better influence fiscal policies to advance social justice

Fiscal policy is a decisive tool for shaping societies. When strategically designed, it can drive inclusive structural transformation, create decent jobs for all, and advance social justice. Because these choices directly affect workers and their families, trade unions have a vital stake in influencing them.

The current context – marked by overlapping crises, calls for austerity, rising military expenditures, unsustainable debt burdens, and widening inequalities – makes this engagement more urgent than ever. Meanwhile, governments remain committed to achieving the Sustainable Development Goals (SDGs) and preparing for the Second World Summit for Social Development (WSSD2). Trade unions can play a leading role in efforts to steer fiscal policies toward social development.

To be effective, two fundamental questions arise: (i) which aspects of fiscal policy should workers' organizations focus on? and (ii) what are the most strategic entry points for influence?

5.1 Key aspects of fiscal policy that trade unions could influence

State budgets – whether annual or multi-year – are the primary vehicle through which fiscal policies are implemented, and therefore the main focus for influencing those policies. While the budget ultimately reflects political choices made by representatives in the executive and legislative branches, these choices should be guided and informed by citizens, particularly workers' organizations.

As the largest membership-based groups representing working people, trade unions have a direct stake: workers and their families are the long-term beneficiaries and bearers of fiscal choices and trade-offs. Based on this, the following seven elements are critical areas for union strategic action to advance social justice:

1. **Coherence between fiscal and public policies for decent work:** Unions should influence budget formulation and execution to ensure coherence across all public policies, including monetary policies, placing decent work at the centre of all policy decisions. By advocating that budget arbitrations are guided by clear objectives and strategic plans, and by insisting on rules that prioritize public spending aligned with those objectives, workers can help embed an inclusive structural transformation. This transformation is essential for creating decent jobs and building inclusive societies through sustained investment in labour market policies, health, education, and infrastructure. Strengthening such coherence can also reduce informality, enhance domestic resource mobilization, and enable a virtuous cycle of social and economic progress. Multi-year budget planning is critical to sustaining this coherence over time, particularly when financing structural change.

2. **Credibility, unity, and universality of the state budget:** Unions should advocate for a sincere and credible budget grounded in robust macroeconomic frameworks and rigorous data – including execution performance from prior periods. Ensuring the unity and universality of the budget is vital: the budget must comprehensively cover all government operations, decentralized bodies, capital expenditures, and development strategies within a consistent framework applying the same assumptions and arbitration principles.

3. **Counter-cyclical policies and automatic stabilizers:** Unions should advocate for budgets that integrate and finance counter-cyclical measures and automatic stabilizers, protecting vulnerable populations during shocks while preserving fiscal capacity in prosperous periods. Allocating 2–3 per cent of total expenditure to an emergency contingency reserve, with clear rules for usage, further strengthens fiscal responsiveness (Potter and Diamond 2004; Allen, Hemming and Potter 2013).

4. **Domestic resource mobilization:** Expanding fiscal capacity requires mobilizing tax revenues to at least 15 per cent of GDP – a widely recognised threshold for financing social development. Unions should promote broadening the tax base, strengthening tax administration, and formalizing the economy. Mobilization must be progressive: the burden should not fall on vulnerable workers. Regressive subsidies that benefit higher-income groups could be reallocated toward targeted transfers to reduce inequality and support families, anchoring equity at the heart of fiscal reforms.

5. **Good governance, transparency, and accountability:** Revenue mobilization is insufficient unless public funds are efficiently used with safeguards against waste, misappropriation, and fraud. Unions can reinforce transparency and accountability through demands for accessible information on budget formulation and execution. Clearly defining responsibilities along the budget chain deters misuse, while union monitoring within ministries and agencies ensures compliance.

6. **Debt policy and fiscal sustainability:** Unions should advocate for responsible debt management aligned with strategic social investments. Prudent borrowing, supported by fiscal credibility and strong institutions, enables funding for transformative social development programs while protecting workers from austerity-driven cuts.

7. **Legal and institutional framework reform:** Where necessary, unions should advocate for reforms that institutionalize social partner participation in budget discussions, establish monitorable rules, and guarantee public access to fiscal data. Strong legal and institutional frameworks underpin coherence, credibility, and sustainability in fiscal policy. This is enabled, first and foremost, by the respect and the realization of the fundamental rights of all workers, including freedom of association and the effective recognition of the right to collective bargaining

5.2 Key entry points for influencing fiscal policies

Effective engagement requires identifying where decisions are made, who makes them, and how unions can intervene. Trade unions can strategically act at six main levels:

- **A. Socio-economic councils and social dialogue institutions:** In countries where they operate, these tripartite platforms offer formal, legitimate arenas to influence fiscal policies. They allow unions to voice concerns on budgets, tax reforms, and spending priorities, embedding unions' perspectives into macroeconomic governance discussions.
- **B. Government:** The executive is the primary driver of budget formulation. Unions should intervene early in inter-ministerial budget arbitrations and again before the finance bill is finalized. Engagement with Ministries of Finance and key sectoral ministries is crucial to ensure coherence with social and employment priorities. Engagement with heads of government strengthens impact. Continuous dialogue during budget execution enables monitoring, mid-course correction requests, and protection of social spending. Unions should encourage governments to establish formal mechanisms for engagement with international financial institutions and multilateral development banks – for example during IMF Article IV consultations and World Bank country partnership processes – so that external fiscal advice and investment priorities are human-centred and advance social justice.
- **C. Parliament:** Legislative bodies provide a crucial secondary window for influence. Unions should engage with finance and sectoral committees to advocate amendments, oversee budget execution, and hold governments accountable – ensuring fiscal decisions meet democratic and social justice standards.
- **D. Political parties:** Dialogues with political parties across the spectrum are important to embed union priorities in legislative platforms and encourage fruitful implementation of equitable fiscal policies.
- **E. Public administration:** Trade unions' unique advantage lies in their broad and representative presence across the public service. This presence provides them with a practical understanding of how fiscal policies and public budgets operate in practice. Without compromising confidentiality or professional

ethics, unions can draw on this institutional knowledge to engage constructively with public administrations – identifying implementation challenges, proposing realistic improvements, and promoting greater efficiency and equity in public spending. Strengthening dialogue and cooperation between workers' representatives and public finance institutions enhances transparency, credibility, and trust in fiscal governance.

- **F. Regional and subregional organizations:** Many fiscal rules are shaped beyond the national level – through monetary unions or regional bodies that set deficit ceilings, debt limits, or fiscal "golden rules." Examples include the EU Stability and Growth Pact or the West African Economic and Monetary Union (WAEMU) convergence criteria. Similarly, the African Union promotes fiscal frameworks to finance continental development. By engaging these bodies, unions can advocate against restrictive fiscal rules that fuel austerity and instead advocate for frameworks that enable investment in jobs, social protection, and structural transformation.

5.3 Final remarks

Reforming fundamental fiscal laws – from budget legislation to tax codes – is as politically decisive as labour law reform. Budget rules, spending allocations, debt ceilings, tax breaks and exemptions, and special regimes determine who pays taxes and who benefits from public resources. Changing these frameworks shifts state capacity to fund essential services, protections, and decent work. To maximize influence, expanding beyond existing entry points, enhancing unity, technical expertise, and representativeness, is essential for trade unions. Building alliances with civil society, NGOs, media, and academia helps amplify the labour voice and broaden public support. Trade unions could also pool their resources to establish specialized budget task forces to track formulation, execution, audits, and impact assessments. This would further position unions as credible forces shaping fiscal policy that advances decent work and social justice.

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Contact details
International Labour Organization
Route des Morillons 4
CH-1211 Geneva 22
Switzerland

E: actrav@ilo.org

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