

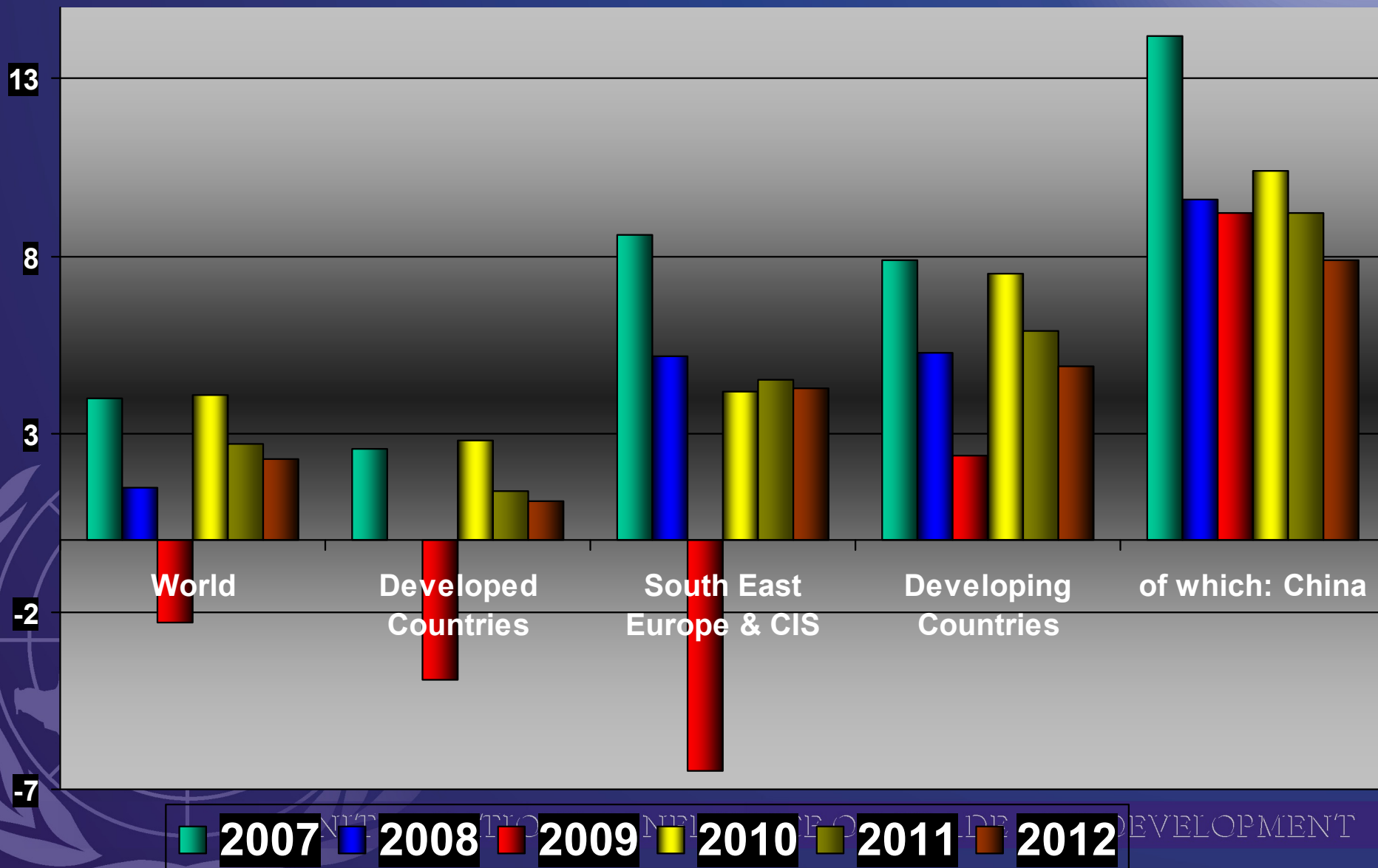
# UNCTAD's RESEARCH ON GLOBAL MACROECONOMICS

## Chronicle of a crisis foretold?

**Courses for Diplomats**

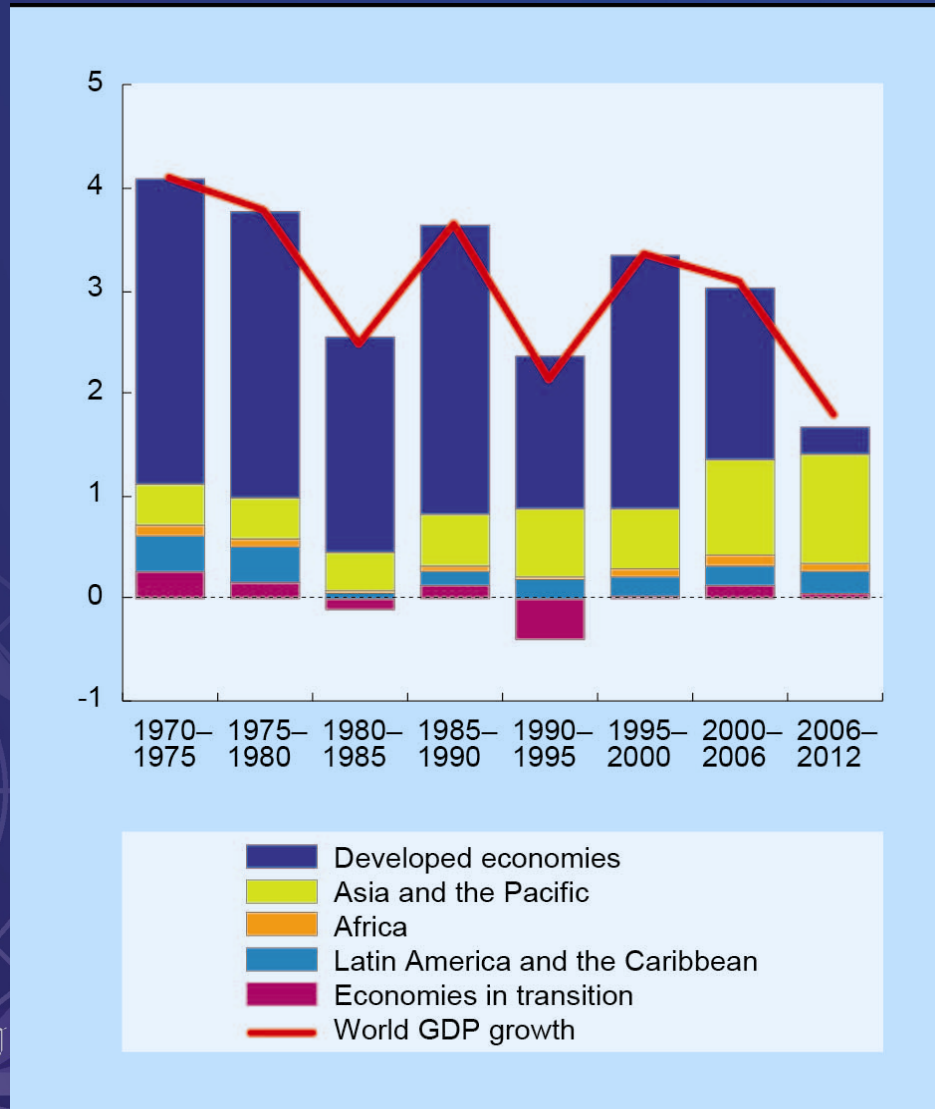
**Geneva, Palais des Nations, October 9, 2012**

# Global economy: shaken by a crisis and a recovery subject to downside risks



# Greater role of developing countries but performances remain intertwined

GDP growth, selected country groups, 1970–2012 (Per cent)



# **Global growth on the back of unsustainable macro-imbalances**

## **Income distribution imbalances**

- ✓ wage repression and credit growth
- ✓ 'race to the bottom' and export growth

## **Private and public sector imbalances**

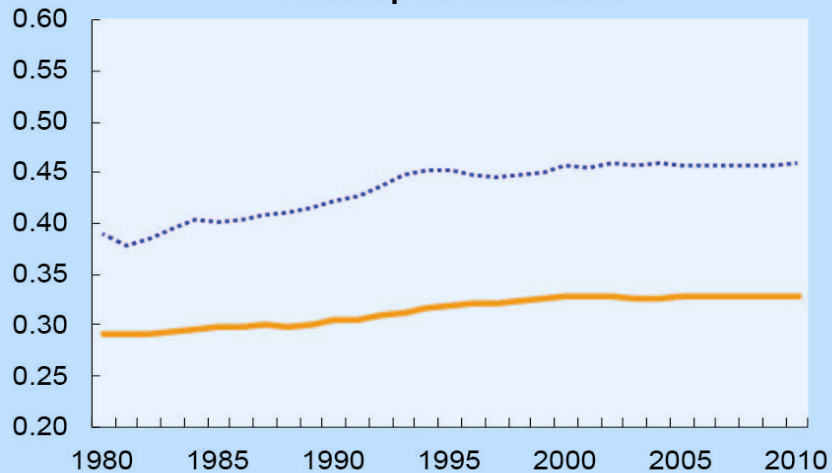
- ✓ retrenchment of public spending & financing
- ✓ private sector exuberance (Lawson doctrine)

## **Trade and financial imbalances**

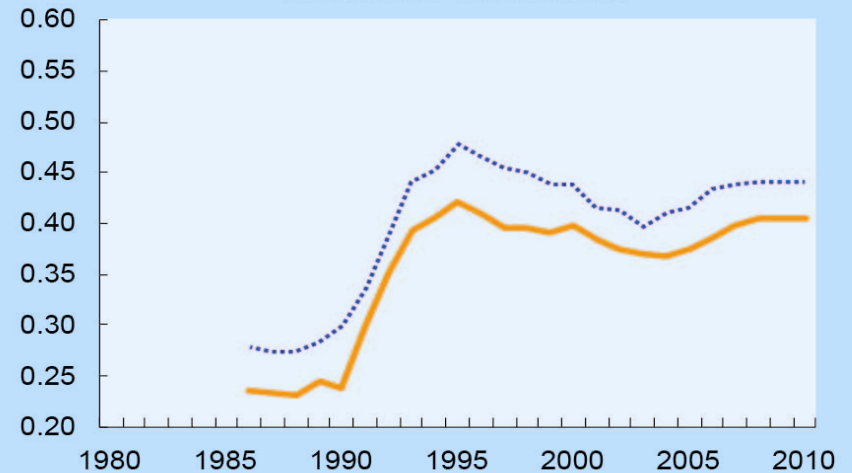
- ✓ underconsumption and over-borrowing

# Income inequality has increased in most regions since the 1980s

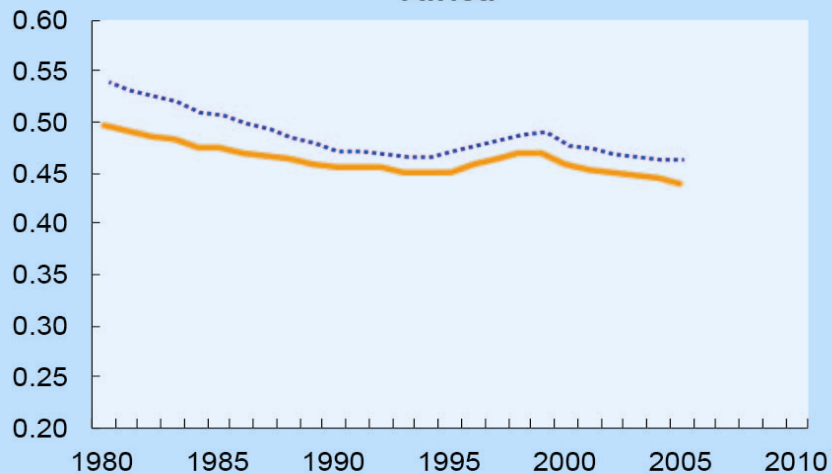
### Developed economies



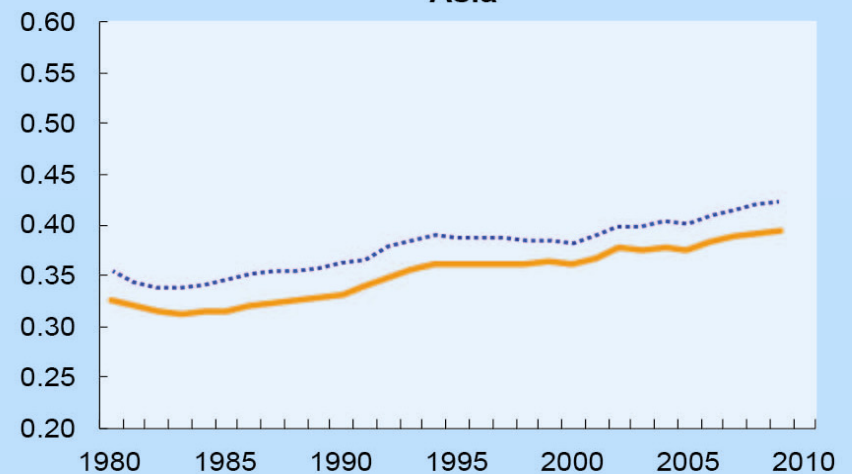
### Transition economies



### Africa



### Asia

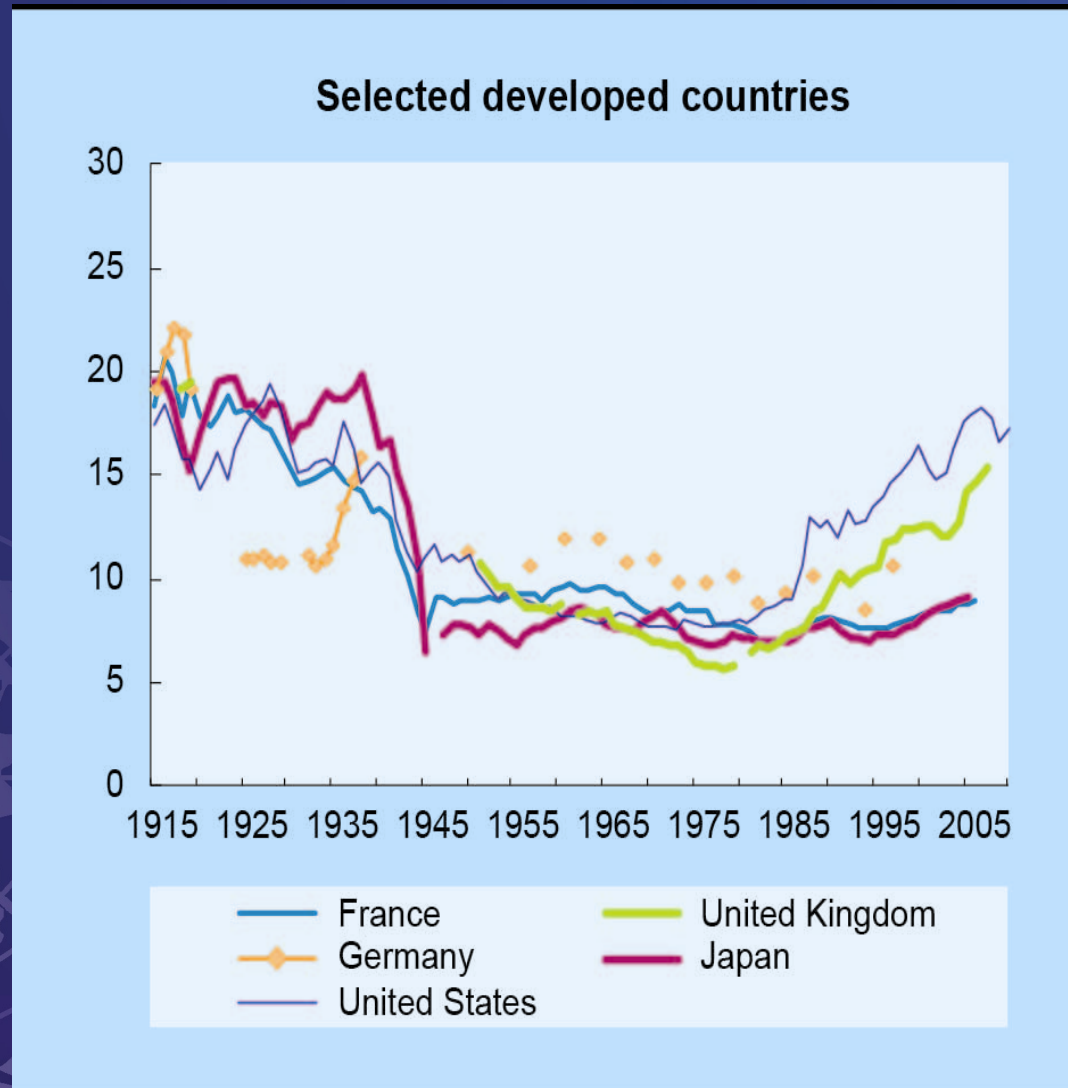


..... Gini coefficient for gross income

———— Gini coefficient for net income

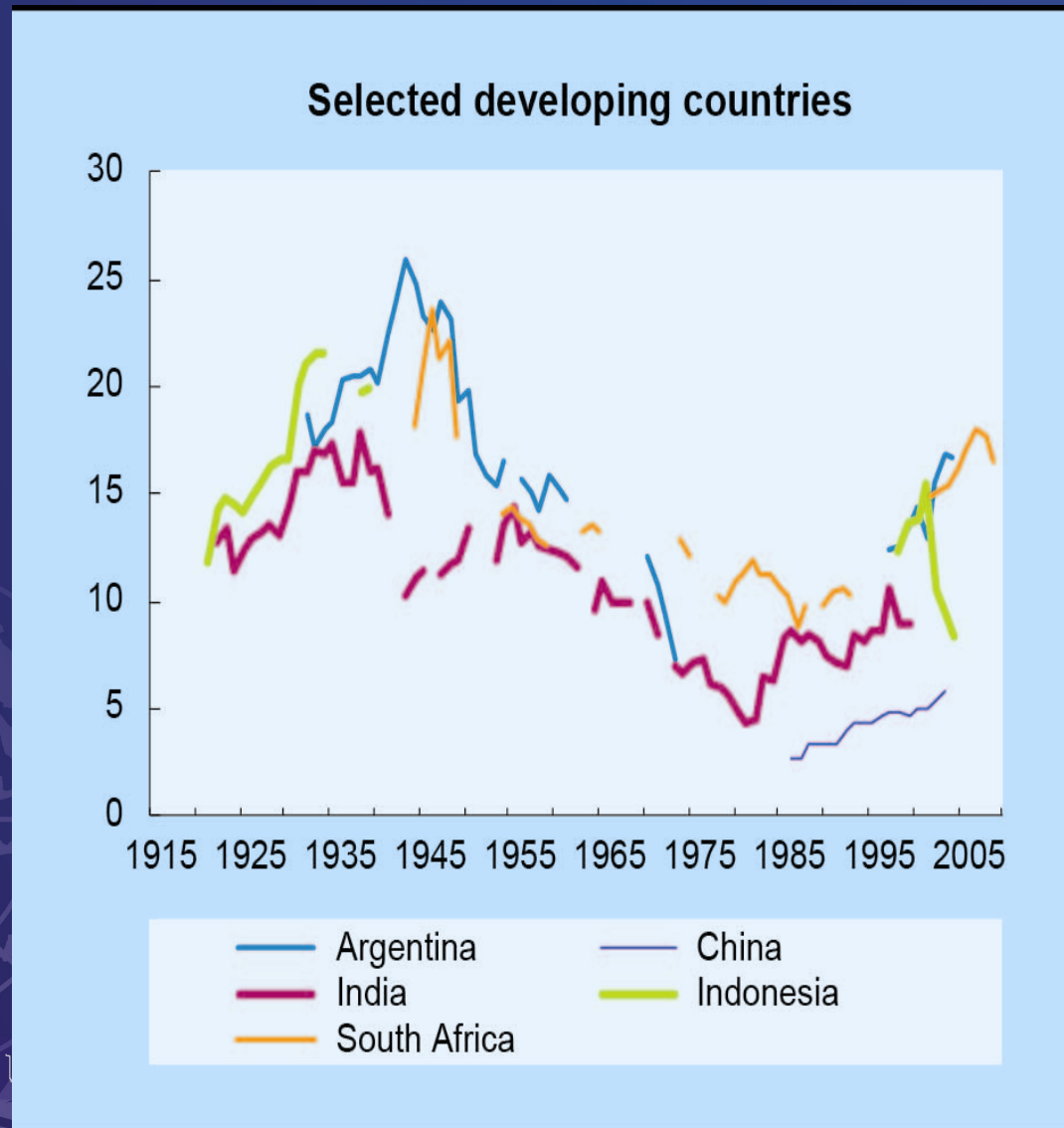
# Top incomes have risen in developed economies ...

Share of income of the top 1 per cent in total income, 1915–2010, per cent



# ... as well as in developing economies

Share of income of the top 1 per cent in total income, 1915–2010, per cent

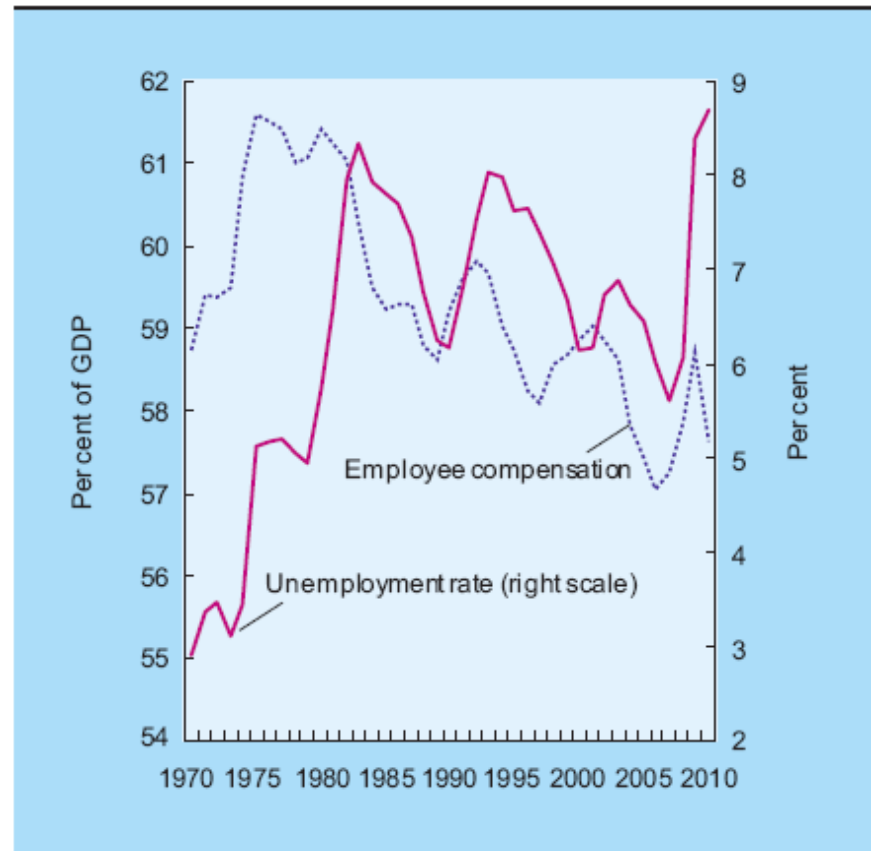


# Inequality & unemployment

The main obstacle hindering growth in many economies is faltering domestic demand, due to wage compression, deleveraging and unemployment, which are interrelated problems

Chart 6.1

## EMPLOYEE COMPENSATION AND UNEMPLOYMENT RATE IN DEVELOPED COUNTRIES, 1970–2010

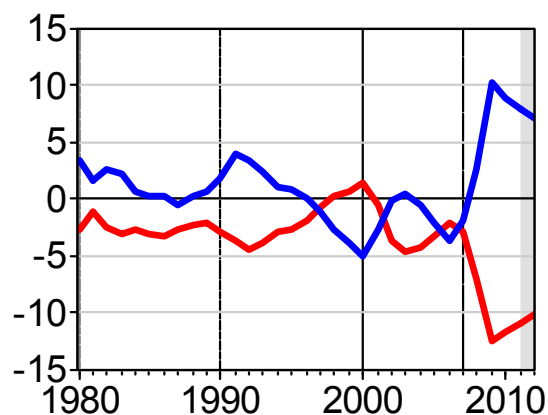




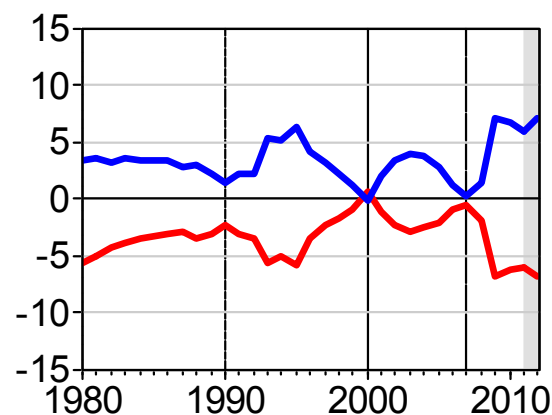
# Shifting patterns of public & private sectors

Net lending of government (red) & private (blue) sectors  
% of GDP

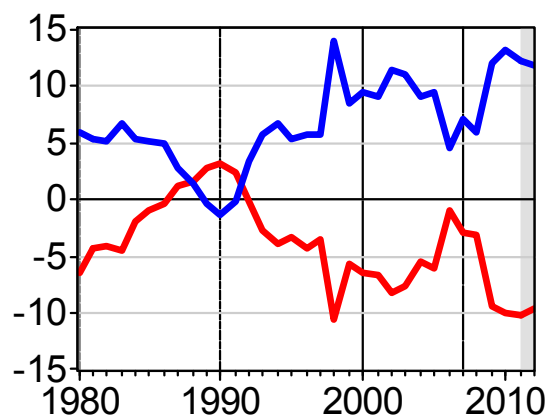
USA



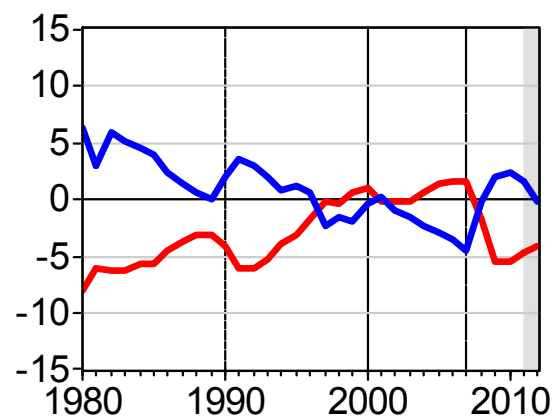
Europe



Japan



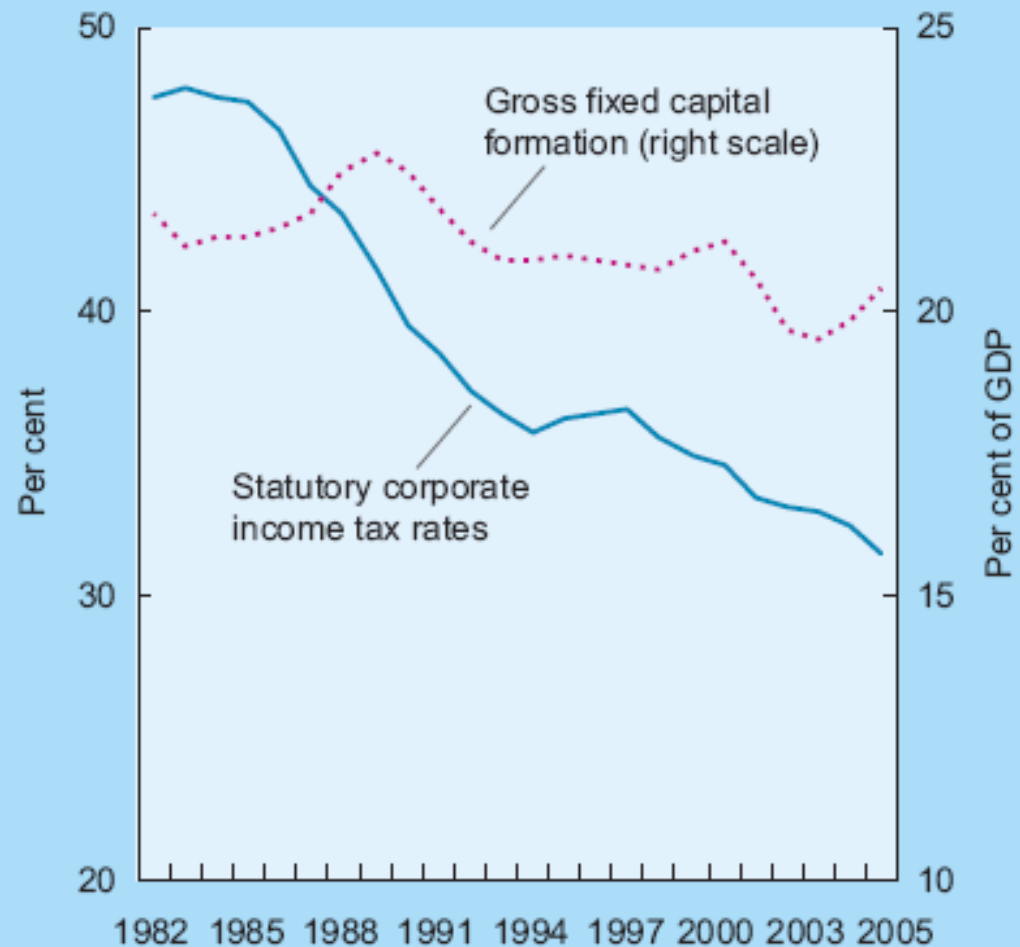
Other Developed



# Fiscal austerity and instability

**A tighter fiscal stance (and yet, regressive taxation) not only erodes demand but also exacerbates inequality and worsens financial stability**

STATUTORY CORPORATE INCOME TAX RATES AND GROSS FIXED CAPITAL FORMATION IN SELECTED DEVELOPED COUNTRIES, 1982–2005



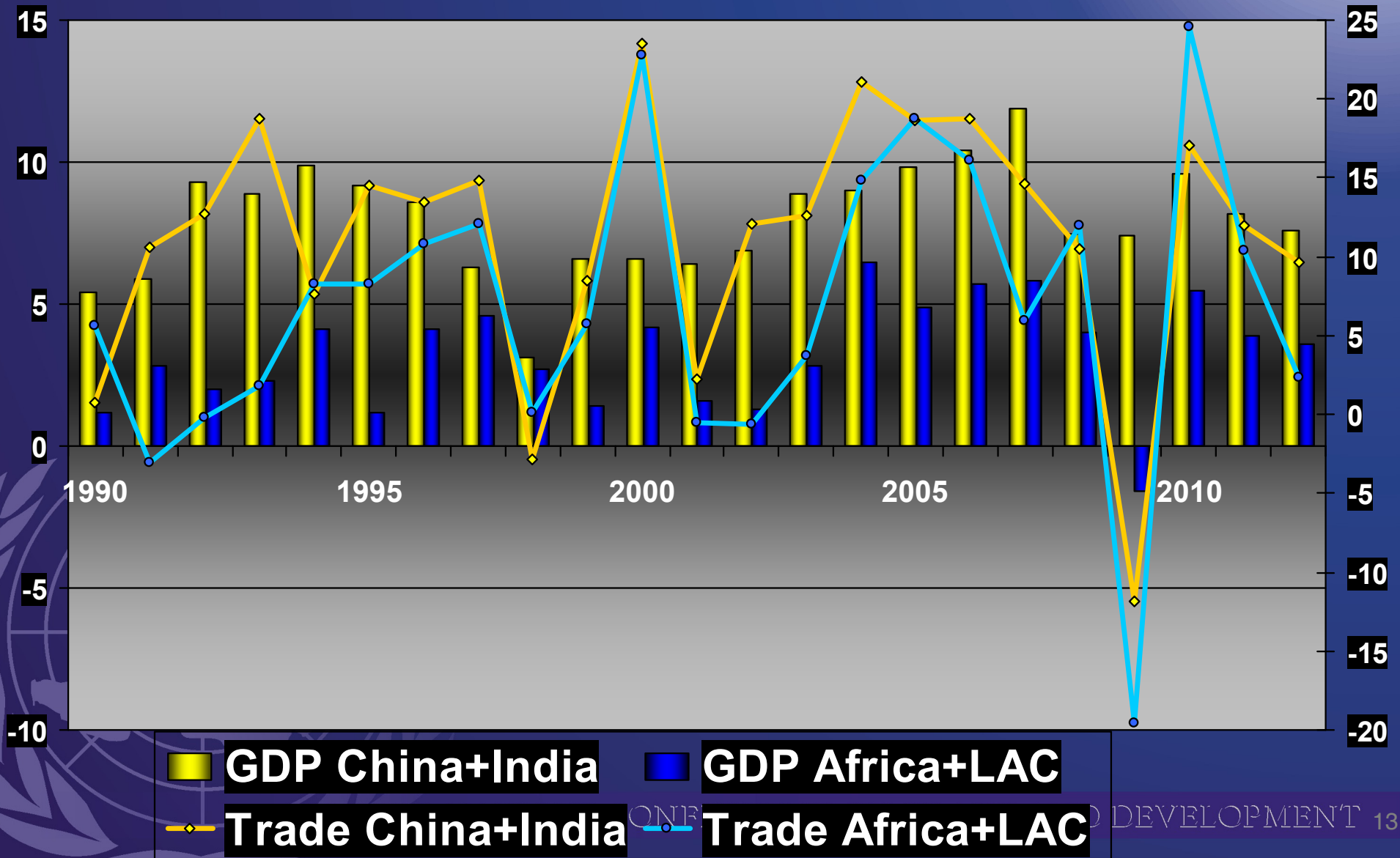
# Misperceptions and limits of the fiscal stance in developing countries

- For the last decades developing countries have followed perverse 'Washington consensus' recommendations, particularly affecting fiscal policy (taxation and spending).
- The redistributive effects of the tax system depend to a large extent on the share of income tax in total revenues and the progressivity of the personal income tax schedule. **But** developing countries face greater informality, while tax evasion from the rich can also be pervasive.
- The lack of progressiveness of the income tax (or weaker tax base) could be mitigated by a high share in public revenue from royalties and State property. **But** in the wake of privatizations and pressure from TNCs many developing countries close the door to such an option.

## The role of the public sector reinstated

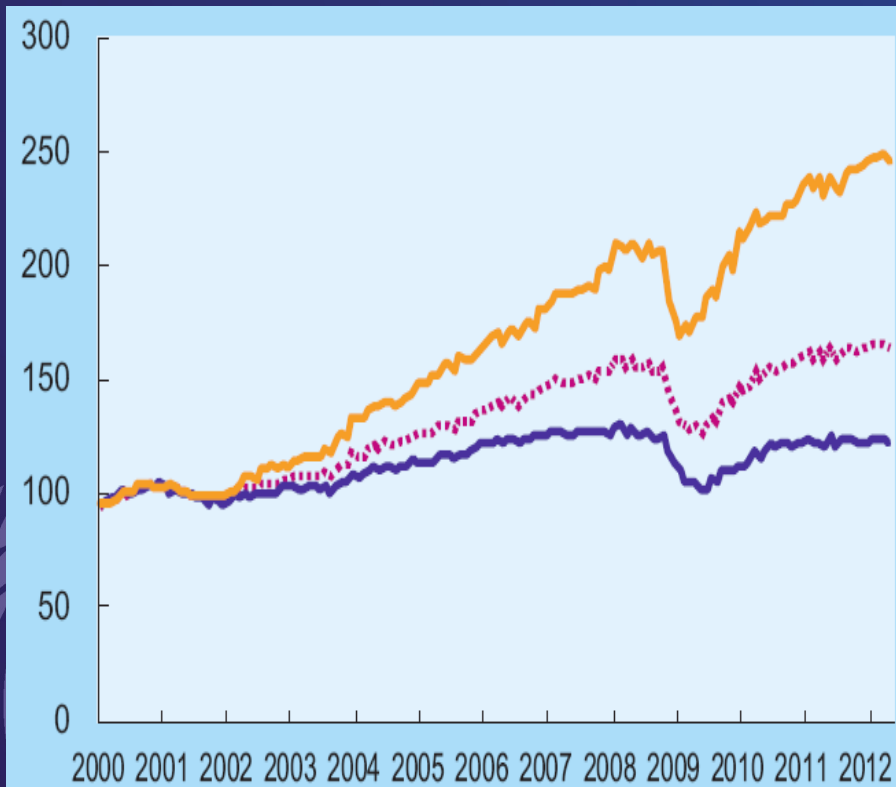
*“In the interests of greater stability and reliability of the financial system, the balance between private activity and State involvement in the financial sector may need to be revised fundamentally. The heavy involvement of governments and central banks justifies a redefinition of the role of central banks and public financial institutions in supporting real economic activity (TDR 2009: VIII).*

# Was the trade performance of many developing countries sustainable ?

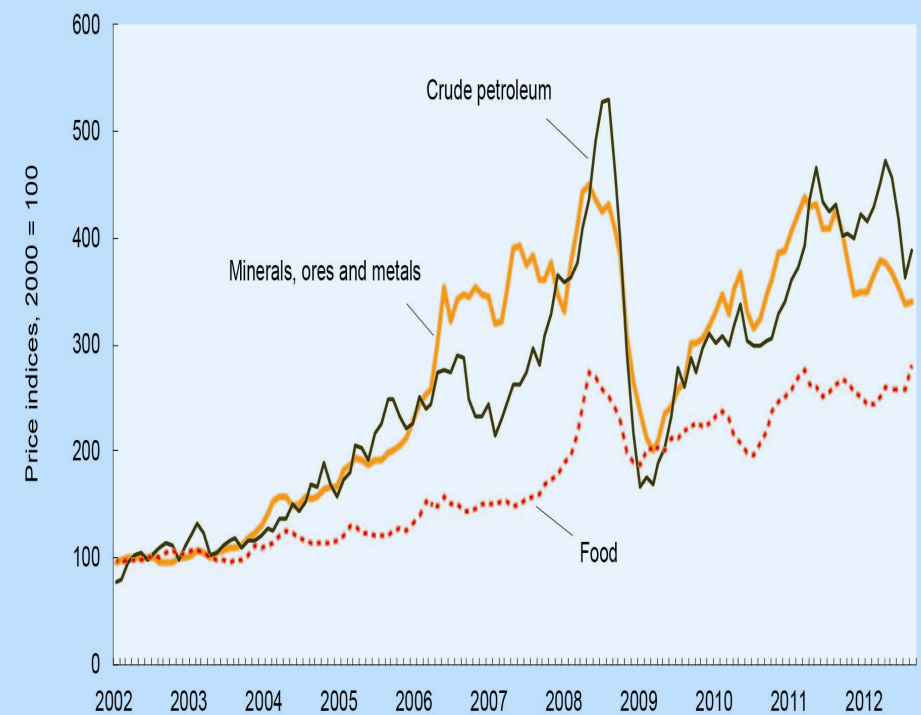


# Benefits from trade? slowdown of demand, commodity shocks, labour m. flexibilization

## Import volume 2000 – 2012



## Rising but volatile commodity prices



- World
- Developed countries
- Emerging market economies

## Private sector behaviour and external imbalances

*“A combination of dwindling private savings, rising private debt, mounting current account deficits and the bubble in technology stocks, has been sustained by the continuing attractiveness of dollar-denominated assets to non-residents. But this situation cannot continue indefinitely” (TDR 1990: I).*

## **As in previous crises, underlying conditions threaten a sustained process of development and growth convergence**

- Inequality and unemployment continue to affect private sector demand, on top of deleveraging behaviour of heavily indebted sectors
- Fiscal austerity a further threat to aggregate demand, and to government financial stability
- External demand (trade) turning into a 'race to the bottom', on top of earlier 'curses' of commodity specialization and fallacy of composition



# Recommendations for labour market policies

- Wage compression as a means for job creation is self-defeating. Our recommendation is to avoid it both for equity and for growth and employment reasons.
- Collective bargaining, complemented by government recommendations or general guidelines, should prevent the wage share from falling.
- Other instruments may be used to correct the market outcome in favour of those with weak negotiation power or excluded from the formal sector. These comprise:
  - Legal minimum wages
  - Enhanced public employment
  - Measures to increase the income of informally employed and self-employed.

# Recommendations for fiscal policy

- Progressive taxation and public spending designed to improve the provision of essential goods and services to low-income groups can contribute to the process of inclusive growth. For example:
  - Profits from productive entrepreneurial activity may be taxed at a lower rate than profits from purely financial activity and capital gains that provide no benefits for the overall economy.
  - Domestic sources of revenue should be enlarged, including greater taxes on top incomes resulting from rent-seeking activities.
  - Governments should prioritize investment in the physical and social infrastructure with a view to the long term.
- By enlarging fiscal space, governments can apply counter-cyclical policies, redistribute income and finance investment for more sustainable and inclusive growth.

# Recommendations for trade and industrial policy

- The extraction of natural resources and their exports should raise meaningful incomes for all. Policy-makers should not abide to pressures from the rich or TNCs to forego their contributions.
- Governments should embark in investment and social spending plans with large employment effects. This requires greater diversification towards industries and services (industrial policy) and is consistent with private sector entrepreneurship.
- A sustained industrialization process requires greater degree of international cooperation to avert a 'race to the bottom' in wage compensation and environmental protection.

# *Trade and Development Report 2012*

## Policies for Inclusive and Balanced Growth

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**UNCTAD**

### TRADE AND DEVELOPMENT REPORT, 2012

Policies for Inclusive  
and Balanced Growth



UNITED NATIONS

**EMBARGO**

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