
Financing Development: Beyond Business as Usual

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Structure of the presentation

- Post-2015 development agenda as a paradigm shift
- From the Bretton Woods System to the Finance-Driven Globalization
- Finance-Driven Globalization and Developing Countries
- Financing a Global New Deal to Lift all Boats

Post-2015 development agenda as a paradigm shift

- The ongoing negotiations on the post-2015 development agenda all recognize the urgency and universality of the challenges
- SDGs different from the MDGs
- “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs” – the Brundtland Report

Post-2015 development agenda as a paradigm shift

	Maddison (International \$)							IMF-WEO (PPP)			
	1900	1950	1970	1980	1990	2000	2010	1980	1990	2000	2010
Europe	39.4	29.6	29.5	27.6	24.7	22.5	17.3	30.8	28.3	26.3	20.7
United States	15.8	27.3	22.4	21.1	21.4	21.8	17.5	22.4	22.7	23.5	18.6
Oceania+Canada	1.7	3.4	3.2	3.2	3.2	3.2	2.7	3.5	3.5	3.5	3.0
Former USSR	7.8	9.6	9.8	8.5	7.3	3.5	4.0	7.7	7.8	3.7	4.7
Latin America	3.6	7.8	8.3	9.8	8.3	8.3	7.6	10.2	8.6	8.8	8.8
Asia	28.2	18.6	23.3	26.2	31.8	37.4	47.5	21.8	25.8	30.8	40.2
Africa	3.4	3.8	3.6	3.6	3.3	3.2	3.4	3.6	3.4	3.3	4.0
Total	100	100	100	100	100	100	100	100	100	100	100



Post-2015 development agenda as a paradigm shift

- Climate change is the biggest shared challenge of our times
- Current paradigm based on self-interested individuals and markets
- For addressing climate change, collective action is needed – thus, the paradigm shift is needed
- However, climate change is only part of the sustainable development challenge: economic development is another

Post-2015 development agenda as a paradigm shift

Economic growth of the world economy

Low

High

Environmental
sustainability

High (low carbon emission)

Low (high carbon emission)

	2020s?
2010s	2000s



Post-2015 development agenda as a paradigm shift

- Rising inequalities – a permanent feature of the global economy in the last 30 years
- Global distribution of income highly unequal: Gini coefficient at around 0.67
- Inequality across countries explains the bulk, between 60% and 90% of all inequality
- Functional distribution of income also worsening
- Other forms of inequality: wealth, gender, racial

Post-2015 development agenda as a paradigm shift

- Global challenges need global solutions
- But, uneven economic playing field
- Meeting the SDGs will require a fundamental socio-economic transformation:
 - Significant rise of investment
 - Intensified policy effort
 - Strengthened regulatory powers
 - Greater attention to distributional issues
 - Rethinking of global economic governance

From the Bretton Woods System to the Finance-Driven Globalization

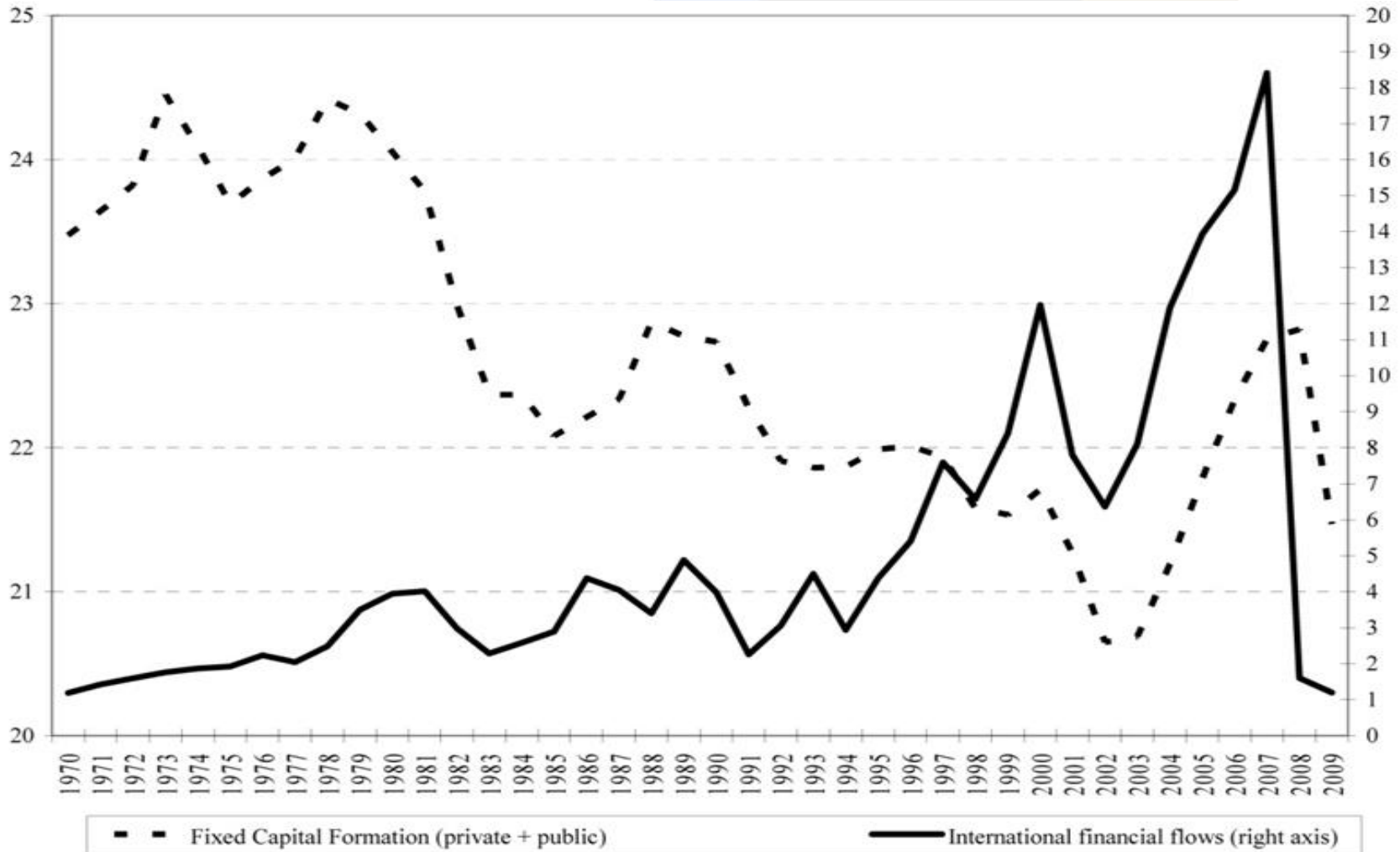
- The Bretton-Woods system – to prevent the recurrence of the opportunistic actions and damaging contagion of the 1930s
- Provided global macroeconomic stability and allowed sufficient policy space for national policymaking
- Based on stable exchange rates, regulated finance, full employment national policies
- Gradual liberalization of trade with increasing multilateral surveillance and clear rules



From the Bretton Woods System to the Finance-Driven Globalization

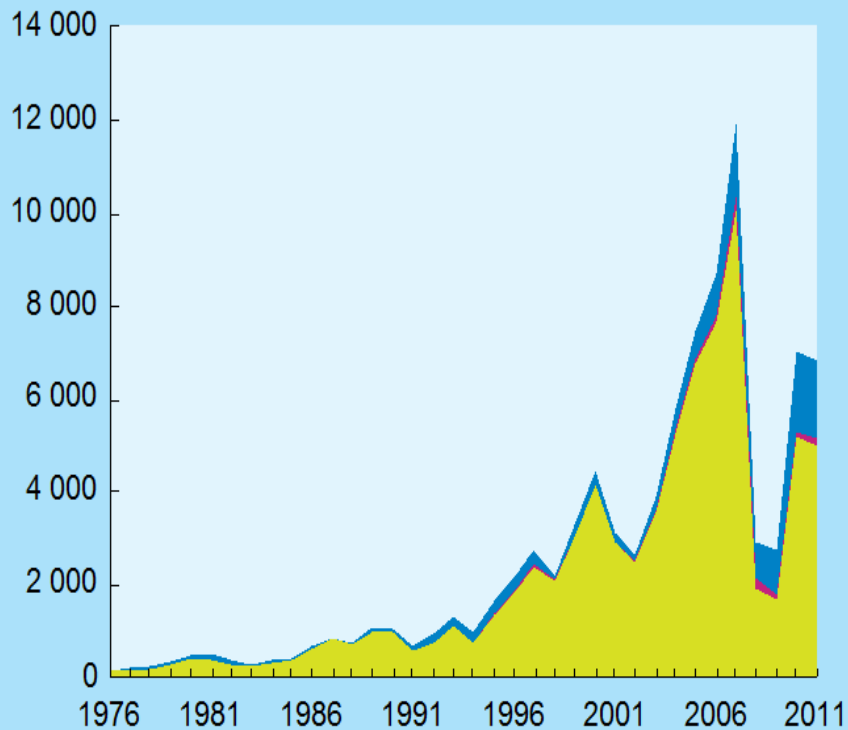
- Breakdown of the Bretton-Woods and the onset of finance-driven globalization
- Reforms in the 1980s: “rolling back the state”, privatizations, trade and exchange-rate liberalizations, tax cuts, labour-market flexibility
- Growing financialization of the economy
- Debt-driven growth
- Shift to short-termism at the expense of long-term goals, shift to private interests at the expense of public and global interests

From the Bretton Woods System to the Finance-Driven Globalization



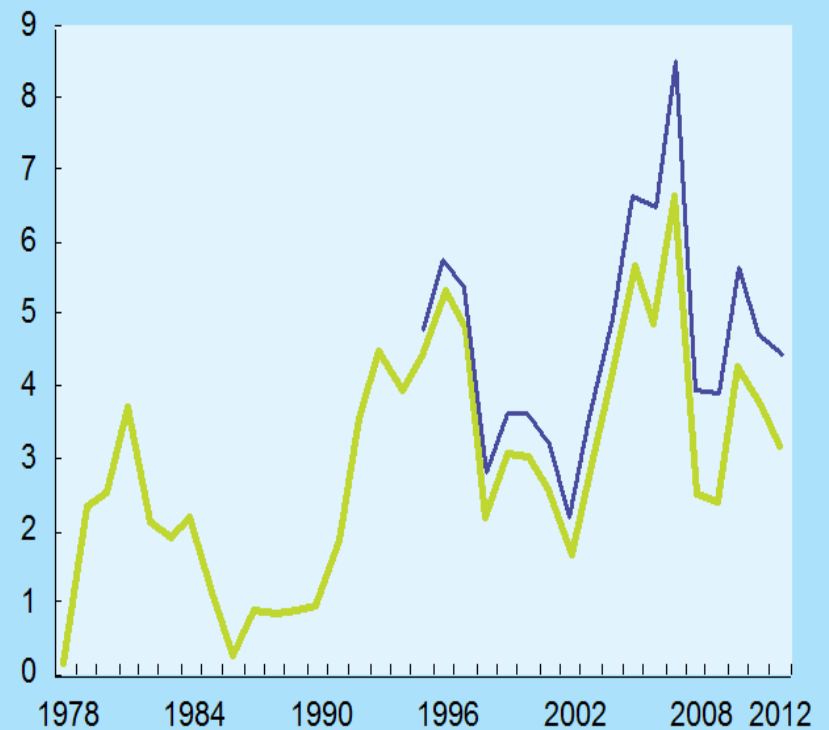
Finance-Driven Globalization and Developing Countries

Net capital inflows, billions of dollars



- Developed economies
- Developing economies
- Transition economies

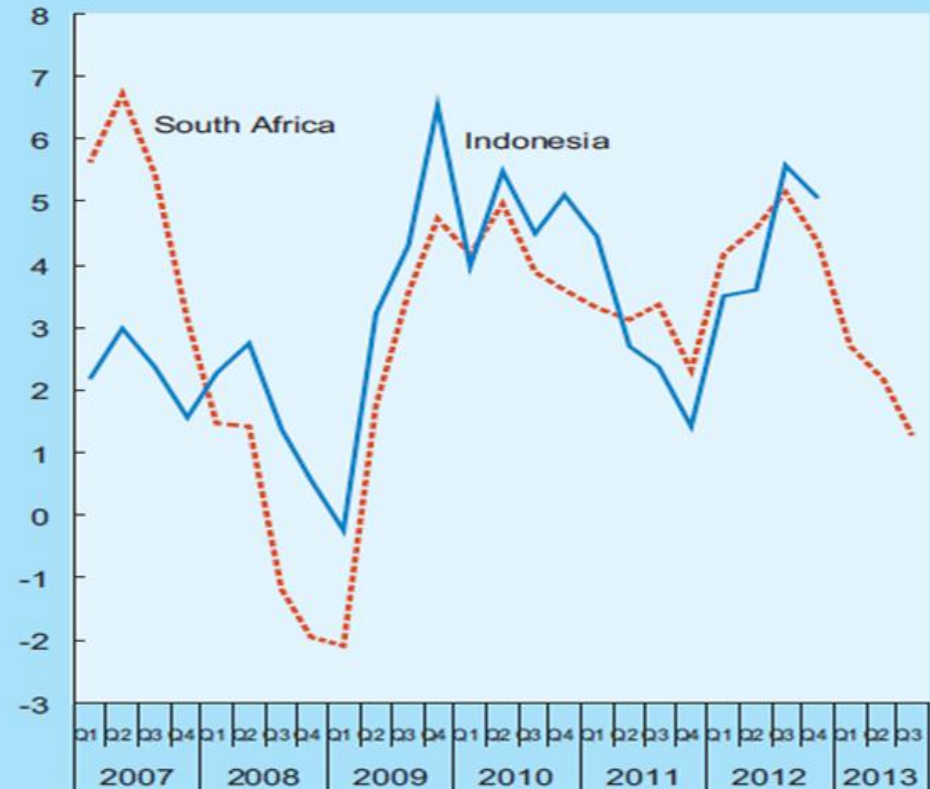
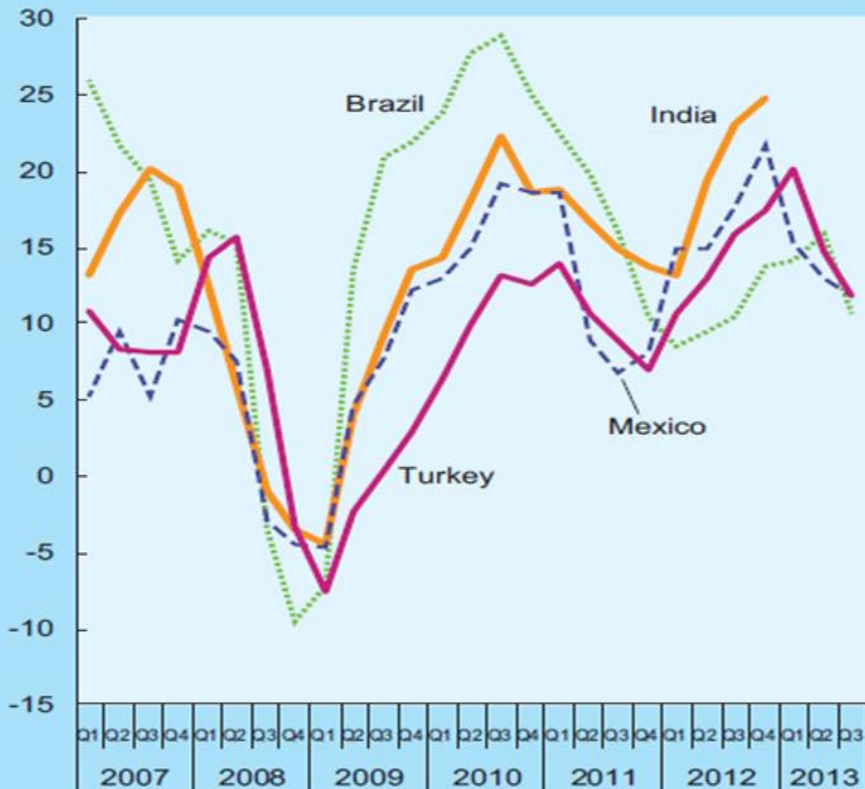
Net private capital inflows to emerging economies, per cent of GDP



- Net private inflows
- Net private inflows, excl. equity outflows

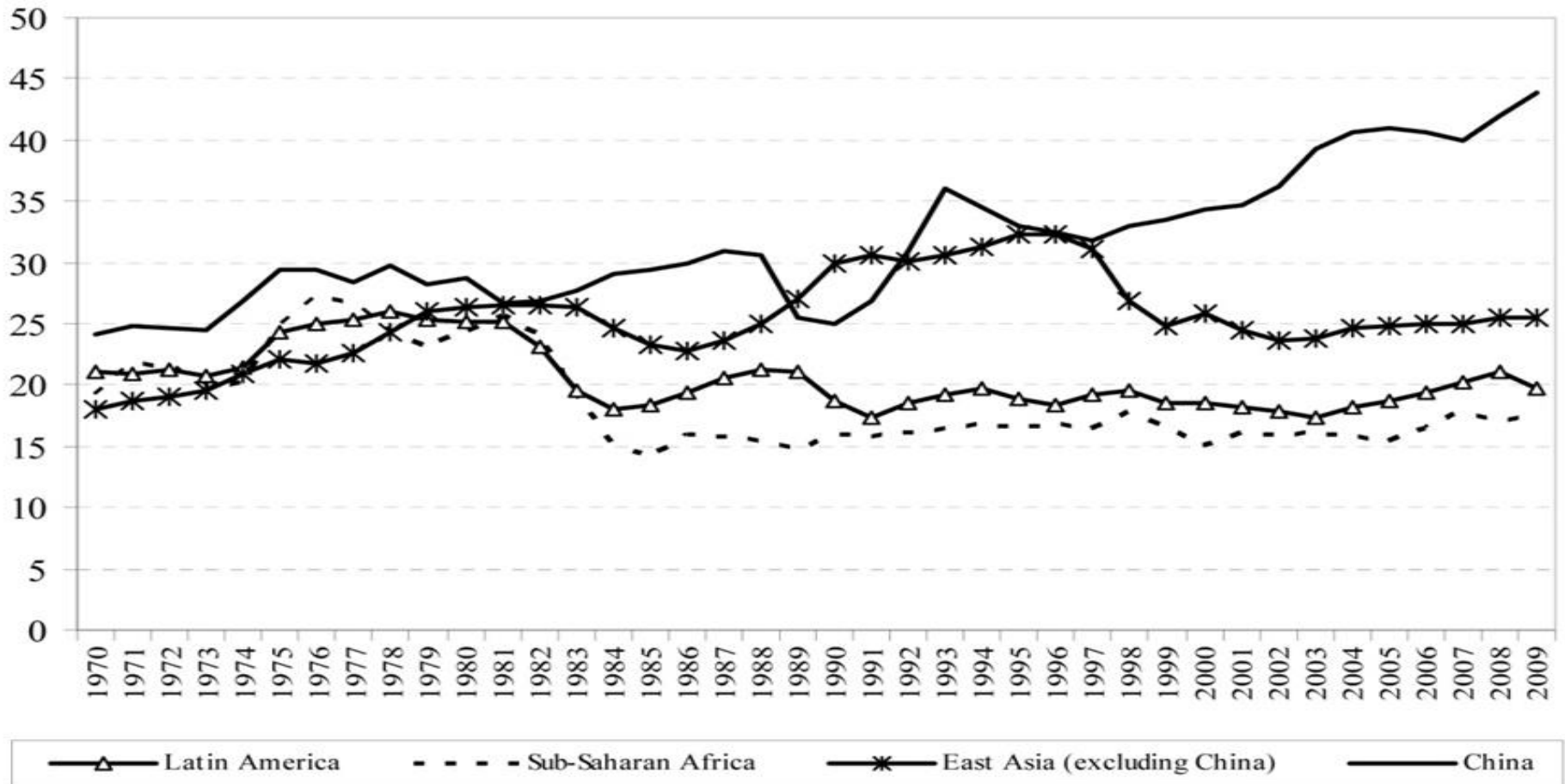
Finance-Driven Globalization and Developing Countries

Capital inflows, 2007 Q1–2013 Q3 (Billions of current dollars)



Finance-Driven Globalization and Developing Countries

Gross fixed capital formation, 1970–2009 (as a percentage of GDP, current prices)



Financing a Global New Deal to Lift all Boats

- Thus, current system of global economic governance is unsatisfactory, and is unlikely to facilitate the attainment of the SDGs
- More generally, a Global New Deal is needed, and multilateral cooperation will be absolutely critical:
 - Strong developmental state
 - Robust multilateral structures
 - Strengthened regional ties

Financing a Global New Deal to Lift all Boats

- **Financing a Global New Deal will entail several interrelated reforms that will have to include the following areas:**
 - 1) putting finance back into the role of servicing the interests of the real sector;
 - 2) expanding long-term financing options;
 - 3) dealing with debt issues, including the sovereign debt workout;
 - 4) stabilizing commodity markets;
 - 5) making aid work for development; and
 - 6) enhancing domestic resource mobilization through tax cooperation

Financing a Global New Deal to Lift all Boats

- **Putting finance back into the role of servicing the interests of the real sector;**
 - a) Measures to align and stabilize exchange rates with stronger surveillance of the macroeconomic policies of reserve currency countries, the promotion of capital controls, and the possible use of exchange rate target zones
 - b) The expansion of multilateral financial resources to bring them to a level sufficient to undertake effective countercyclical financing and to deal with payment difficulties emerging on the capital account.
 - c) A pruning back of the policy conditionalities that have mushroomed around crisis lending.
 - d) The introduction of a tax on financial transactions "to mitigate the dominance of speculation over enterprise" (Keynes, 1936).



Financing a Global New Deal to Lift all Boats

- **Expanding long-term financing options: new regional initiatives are the way forward**
- **Stabilizing commodity markets through a global countercyclical financial facility**
- **Making aid work for development, including a reorientation toward productive sectors**
- **Enhancing domestic resource mobilization through tax cooperation – the importance of the fiscal space**

Financing a Global New Deal to Lift all Boats

- Ensuring faster convergence
- Higher growth rates for the global economy
- Integrated policy framework at the national level is needed with a coherent set of macroeconomic, industrial, trade, environmental and social policies
- Multilateral cooperation to allow sufficient policy space at the national level and to promote transition to the low-emission, high-growth pathways for national economies

Thank you!
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